FIRST KEYSTONE CORP
Form 10-Q
May 12, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10Q

Quarterly Report Pursuant to Section 13 OR 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2008

Commission File Number: 2-88927

FIRST KEYSTONE CORPORATION
(Exact name of registrant as specified in its charter)

Pennsylvania	23-2249083
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer identification No.)

111 West Front Street, Berwick, PA	18603
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (570) 752-3671

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "small reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer [ ] Accelerated filer [X]
Non-accelerated filer [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes [ ] No [X]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date:

Common Stock, $2 Par Value, 5,440,076 shares at May 7, 2008.

PART I. - FINANCIAL INFORMATION

Item. 1 Financial Statements

FIRST KEYSTONE CORPORATION AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

(Amounts in thousands)

	March 2008 (Unaudited)	December 2007
ASSETS		
Cash and due from banks	$ 15,499	$ 9,886
Interest-bearing deposits in other banks	4,809	89
Investment securities available-for-sale carried at estimated fair value	223,406	241,521
Investment securities, held-to-maturity securities, estimated fair value of $4,559 and $4,553	4,535	4,538
Loans, net of unearned income	384,474	376,603
Allowance for loan losses	(5,142)	(5,046)
Net loans	$379,332	$371,557
Premises and equipment - Net	8,420	8,486
Accrued interest receivable	3,220	3,241
Cash surrender value of bank owned life insurance	16,619	16,450
Goodwill	19,133	18,981
Other assets	6,663	6,458
TOTAL ASSETS	$681,636	$681,207
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits		
Non-interest bearing	$ 58,124	$ 58,844
Interest bearing	458,538	434,197
TOTAL DEPOSITS	$516,662	$493,041
Short-term borrowings	14,199	47,349
Long-term borrowings	73,159	66,175
Accrued interest and other expenses	3,328	3,454
Other liabilities	2,046	264
TOTAL LIABILITIES	$609,394	$610,283

STOCKHOLDERS' EQUITY		
Common stock, par value $2 per share	$ 11,375	$ 11,375
Surplus	30,261	30,252
Retained earnings	36,230	35,705
Accumulated other comprehensive income (loss)	618	(166)
Less treasury stock at cost 247,691 shares in 2008 and 247,691 shares in 2007	(6,242)	(6,242)
TOTAL STOCKHOLDERS' EQUITY	$ 72,242	$ 70,924
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$681,636	$681,207

See Accompanying Notes to Consolidated Financial Statements

FIRST KEYSTONE CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE MONTHS ENDED March 31, 2008 AND 2007
(Unaudited)

(Amounts in thousands except per share data)

	2008	2007
INTEREST INCOME		
Interest and fees on loans	$6,370	$4,305
Interest and dividend income on securities	2,952	3,094
Deposits in banks	15	8
Interest on federal funds sold	14	0
TOTAL INTEREST INCOME	$9,351	$7,407
INTEREST EXPENSE		
Deposits	$3,789	$3,164
Short-term borrowings	216	231
Long-term borrowings	848	691
TOTAL INTEREST EXPENSE	$4,853	$4,086
Net interest income	$4,498	$3,321
Provision for loan losses	50	50
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	$4,448	$3,271

NON-INTEREST INCOME		
Trust department	$ 152	$ 140
Service charges and fees	578	470
Bank owned life insurance income	169	124
Gain on sale of loans	42	34
Investment securities gains (losses) - net	104	126
Other	60	59
TOTAL NON-INTEREST INCOME	$1,105	$ 953
NON-INTEREST EXPENSE		
Salaries and employee benefits	$1,876	$1,357
Occupancy, net	265	178
Furniture and equipment	212	180
Professional services	111	99
State shares tax	170	135
Other	816	542
TOTAL NON-INTEREST EXPENSES	$3,450	$2,491
Income before income taxes	$2,103	$1,733
Income tax expense	381	299
Net Income	$1,722	$1,434
PER SHARE DATA		
Net Income Per Share:		
Basic	$ .32	$ .32
Diluted	.32	.32
Cash dividends per share	.22	.22

See Accompanying Notes to Consolidated Financial Statements

FIRST KEYSTONE CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED March 31, 2008 AND 2007
(Unaudited)

(Amounts in thousands)	2008	2007
OPERATING ACTIVITIES		
Net income	$ 1,722	$ 1,434
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	50	50
Provision for depreciation and amortization	585	129

Stock option expense	9	0
Premium amortization on investment securities	29	33
Discount accretion on investment securities	(152)	(141)
Gain on sale of mortgage loans	(42)	(37)
Proceeds from sale of mortgage loans	1,567	3,349
Originations of mortgage loans for resale	(2,272)	(1,014)
Gain on sales of investment securities	(72)	(126)
Deferred income tax (benefit)	(30)	(44)
Increase in interest receivable and other assets	(607)	(677)
Increase in cash surrender bank owned life insurance	(169)	(124)
Increase (decrease) in interest payable, accrued expenses and other liabilities	(26)	309
Loss on sale of premises and equipment	0	3
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 592	$ 3,144
INVESTING ACTIVITIES		
Purchases of investment securities available-for-sale	(22,911)	$(33,242)
Purchases of investment securities held-to-maturity	0	0
Proceeds from sales of investment securities available-for-sale	23,497	28,847
Proceeds from maturities and redemptions of investment securities available for sale	20,555	5,157
Proceeds from maturities and redemption of investment securities held-to-maturity	0	2,003
Net increase in loans	(7,116)	(3,034)
Purchase of premises and equipment	(523)	(229)
Proceeds from sale of premises and equipment	0	2
NET CASH PROVIDED BY (USED IN) BY INVESTING ACTIVITIES	$ 13,502	$ (496)
FINANCING ACTIVITIES		
Net increase in deposits	$ 23,594	$ 8,626
Net decrease in short-term borrowings	(33,150)	(11,935)
Proceeds from long-term borrowings	10,000	0
Repayment of long-term borrowings	(3,008)	0
Acquisition of treasury stock	0	(144)
Cash dividends	(1,197)	(996)
NET CASH (USED IN) FINANCING ACTIVITIES	$ (3,761)	$ (4,449)

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	$ 10,333	$ (1,801)
CASH AND CASH EQUIVALENTS, BEGINNING	9,975	10,188
CASH AND CASH EQUIVALENTS, ENDING	$ 20,308	$ 8,387
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during period for		
Interest	$ 4,916	$ 3,791
Income Taxes	83	53

See Accompanying Notes to Consolidated Financial Statements

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FIRST KEYSTONE CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2008
(Unaudited)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of First Keystone Corporation and Subsidiary (the "Corporation") are in accordance with accounting principles generally accepted in the United States of America and conform to common practices within the banking industry. The more significant policies follow:

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of First Keystone Corporation and its wholly owned Subsidiary, First Keystone National Bank (the "Bank"). All significant inter company balances and transactions have been eliminated in consolidation.

NATURE OF OPERATIONS

The Corporation, headquartered in Berwick, Pennsylvania, provides a full range of banking, trust and related services through its wholly owned Bank subsidiary and is subject to competition from other financial institutions in connection with these services. The Bank serves a customer base which includes individuals, businesses, public and institutional customers primarily located in the Northeast Region of Pennsylvania. The Bank has 14 full service offices and 16 ATMs located in Columbia, Luzerne, Montour and Monroe Counties. The Corporation and its subsidiary must also adhere to certain federal banking laws and regulations and are subject to periodic examinations made by various federal agencies.

SEGMENT REPORTING

The Corporation's banking subsidiary acts as an independent community financial services provider, and offers traditional banking and related financial services to individual, business and

government customers. Through its branch and automated teller machine network, the Bank offers a full array of commercial and retail financial services, including the taking of time, savings and demand deposits; the making of commercial, consumer and mortgage loans; and the providing of other financial services. The Bank also performs personal, corporate, pension and fiduciary services through its Trust Department.

Management does not separately allocate expenses, including the cost of funding loan demand, between the commercial, retail, trust and mortgage banking operations of the Corporation. Currently, management measures the performance and allocates the resources of First Keystone Corporation as a single segment.

USE OF ESTIMATES

The preparation of these consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of these consolidated financial statements and the reported amounts of income and expenses during the reporting periods. Actual results could differ from those estimates.

INVESTMENT SECURITIES

The Corporation classifies its investment securities as either "Held to Maturity" or "Available for Sale" at the time of purchase. Debt securities are classified as Held to Maturity when the Corporation has the ability and positive intent to hold the securities to maturity. Investment securities Held to Maturity are carried at cost adjusted for amortization of premium and accretion of discount to maturity.

Debt securities not classified as Held to Maturity and equity securities are included in the Available for Sale category and are carried at fair value. The amount of any unrealized gain or loss, net of the effect of deferred income taxes, is reported as other comprehensive income (loss) in the Consolidated Statement of Changes in Stockholders' Equity. Management's decision to sell Available for Sale securities is based on changes in economic conditions controlling the sources and applications of funds, terms, availability of and yield of alternative investments, interest rate risk and the need for liquidity.

The cost of debt securities classified as Held to Maturity or Available for Sale is adjusted for amortization of premiums and accretion of discounts to expected maturity. Such amortization and accretion, as well as interest and dividends is included in interest income from investments. Realized gains and losses are included in net investment securities gains and losses.

The cost of investment securities sold, redeemed or matured is

based on the specific identification method.

LOANS

Loans are stated at their outstanding unpaid principal balances, net of deferred fees or costs, unearned income and the allowance for loan losses. Interest on installment loans is recognized as income over the term of each loan, generally, by the actuarial method. Interest on all other loans is primarily recognized based upon the principal amount outstanding on an actual day basis. Loan origination fees and certain direct loan origination costs have been deferred with the net amount amortized using the interest method over the contractual life of the related loans as an interest yield adjustment.

Mortgage loans held for resale are carried at the lower of cost or market on an aggregate basis. These loans are sold without recourse to the Corporation.

Past-Due Loans - Generally, a loan is considered to be past due when scheduled loan payments are in arrears 15 days or more. Delinquent notices are generated automatically when a loan is 15 days past due, depending on the type of loan. Collection efforts continue on loans past due beyond 60 days that have not been satisfied, when it is believed that some chance exists for improvement in the status of the loan. Past due loans are continually evaluated with the determination for charge off being made when no reasonable chance remains that the status of the loan can be improved.

Non-Accrual Loans - Generally, a loan is classified as non accrual and the accrual of interest on such a loan is discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectibility of principal or interest, even though the loan currently is performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on non accrual status, unpaid interest credited to income in the current year is reversed and unpaid interest accrued in prior years is charged against the allowance for loan losses. Certain non accrual loans may continue to perform, that is, payments are still being received. Generally, the payments are applied to principal. These loans remain under constant scrutiny and if performance continues, interest income may be recorded on a cash basis based on management's judgement as to collectibility of principal.

Allowance for Loan Losses - The allowance for loan losses is established through provisions for loan losses charged against income. Loans deemed to be uncollectible are charged against the allowance for loan losses and subsequent recoveries, if any, are credited to the allowance.

A principal factor in estimating the allowance for loan losses is the measurement of impaired loans. A loan is considered impaired when, based on current information and events, it is probable that the Corporation will be unable to collect all amounts due according to the contractual terms of the loan agreement. Under current accounting standards, the allowance for loan losses related to impaired loans is based on discounted cash flows using the effective interest rate of the loan or the fair value of the collateral for certain collateral dependent loans.

The allowance for loan losses is maintained at a level estimated by management to be adequate to absorb potential loan losses. Management's periodic evaluation of the adequacy of the allowance for loan losses is based on the Corporation's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay (including the timing of future payments), the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions, and other relevant factors. This evaluation is inherently subjective as it requires material estimates including the amounts and timing of future cash flows expected to be received on impaired loans that may be susceptible to significant change.

DERIVATIVES

The Bank has outstanding loan commitments that relate to the origination of mortgage loans that will be held for resale. Pursuant to Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities" as amended by SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities" and the guidance contained within the Derivatives Implementation Group Statement 133 Implementation Issue No. C 13, the Bank has accounted for such loan commitments as derivative instruments. The outstanding loan commitments in this category did not give rise to any losses for the years ended December 31, 2007 and 2006, as the fair market value of each outstanding loan commitment exceeded the Bank's cost basis in each outstanding loan commitment.

PREMISES AND EQUIPMENT

Premises, improvements and equipment are stated at cost less accumulated depreciation computed principally on the straight line method over the estimated useful lives of the assets. Long lived assets are reviewed for impairment whenever events or changes in business circumstances indicate that the carrying value may not be recovered. Maintenance and minor repairs are charged to operations as incurred. The cost and accumulated depreciation of the premises and equipment retired or sold are eliminated from the property accounts at the time of retirement or sale, and the resulting gain or loss is reflected in current operations.

MORTGAGE SERVICING RIGHTS

The Corporation originates and sells real estate loans to investors in the secondary mortgage market. After the sale, the Corporation may retain the right to service these loans. When originated mortgage loans are sold and servicing is retained, a servicing asset is capitalized based on relative fair value at the date of sale. Servicing assets are amortized as an offset to other fees in proportion to, and over the period of, estimated net servicing income. The unamortized cost is included in other assets in the accompanying consolidated balance sheet. The servicing rights are periodically evaluated for impairment based on their relative

fair value.

FORECLOSED REAL ESTATE

Real estate properties acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value on the date of foreclosure establishing a new cost basis. After foreclosure, valuations are periodically performed by management and the real estate is carried at the lower of carrying amount or fair value less cost to sell and is included in other assets. Revenues derived from and costs to maintain the assets and subsequent gains and losses on sales are included in other non interest income and expense. The total of foreclosed real estate properties included in other assets amounted to $146,000 and $65,000 at March 31, 2008 and December 31, 2007, respectively.

BANK OWNED LIFE INSURANCE

The Corporation invests in Bank Owned Life Insurance (BOLI) with split dollar life provisions. Purchase of BOLI provides life insurance coverage on certain employees with the Corporation being owner and beneficiary of the policies.

INVESTMENTS IN REAL ESTATE VENTURES

The Bank is a limited partner in real estate ventures that own and operate affordable residential low income housing apartment buildings for elderly residents. The investments are accounted for under the effective yield method under the Emerging Issues Task Force (EITF) 94-1, "Accounting for Tax Benefits Resulting from Investments in Affordable Housing Projects". Under the effective yield method, the Bank recognizes tax credits as they are allocated and amortizes the initial cost of the investment to provide a constant effective yield over the period that the tax credits are allocated to the Bank. Under this method, the tax credits allocated, net of any amortization of the investment in the limited partnerships, are recognized in the consolidated statements of income as a component of income tax expense. The amount of tax credits allocated to the Bank were $151,000 in 2007 and $128,000 in 2006 and 2005, and the amortization of the investments in the limited partnerships were $37,000, $26,000 and $25,000 for the three months ended March 31, 2008, 2007 and 2006, respectively. The carrying value of the investments as of March 31, 2008 and December 31, 2007 was $956,000 and $975,000, respectively, and is included in other assets in the accompanying consolidated balance sheets.

INCOME TAXES

The provision for income taxes is based on the results of operations, adjusted primarily for tax exempt income. Certain items of income and expense are reported in different periods for financial reporting and tax return purposes. Deferred tax assets and liabilities are determined based on the differences between the consolidated financial statement and income tax bases of assets and

liabilities measured by using the enacted tax rates and laws expected to be in effect when the timing differences are expected to reverse. Deferred tax expense or benefit is based on the difference between deferred tax asset or liability from period to period.

GOODWILL, OTHER INTANGIBLE ASSETS, AND PREMIUM DISCOUNT

Goodwill resulted from the acquisition of the Pocono Community Bank in November 2007 and of certain fixed and operating assets acquired and deposit liabilities assumed of the branch of another financial institution in Danville, Pennsylvania, in January 2004. Such goodwill represents the excess cost of the acquired assets relative to the assets fair value at the dates of acquisition. The Corporation accounts for goodwill pursuant to the Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Intangible Assets". During the first quarter of 2008, $152,000 of liabilities were recorded related to the Pocono acquisition as a purchase accounting adjustment, resulting in an increase in excess purchase price. The amount was comprised of the finalization of severance agreements and contract terminations related to the acquisition. SFAS No. 142 includes requirements to test goodwill for impairments rather than to amortize goodwill. The Corporation has tested the goodwill included in its consolidated balance sheet at December 31, 2007, and has determined there was no impairment as of that date.

Intangible assets are comprised of core deposit intangibles and premium discount (negative premium) on certificates of deposit acquired. The core deposit intangible is being amortized over the average life of the deposits acquired as determined by an independent third party. Premium discount (negative premium) on acquired certificates of deposit resulted from the valuation of certificate of deposit accounts by an independent third party. The book value of certificates of deposit acquired was greater than their fair value at the date of acquisition which resulted in a negative premium due to higher cost of the certificates of deposit compared to the cost of similar term financing.

STOCK BASED COMPENSATION

The Corporation sponsors a stock option plan (see Note 20). Prior to January 1, 2006 the Corporation had accounted for this Plan under the fair value recognition and measurement provisions of Statement of Financial Accounting Standards (SFAS) 123, "Accounting for Stock Based Compensation". Effective January 1, 2006 the Corporation adopted SFAS 123 (revised 2004), "Share Based Payment", using the modified prospective application method. Based on the terms of the Plan, the Corporation did not have a cumulative effect related to the Plan. Since the fair value recognition provisions of SFAS 123 and SFAS 123R are essentially the same as they relate to the Corporation's Plan, the adoption of SFAS 123R did not and will not have a material impact on the Corporation's consolidated financial condition, results of operations or liquidity. The fair values of the stock awards are determined using the estimated expected life. The Corporation recognized stock based compensation expense on the straight line basis over the period the stock award is earned by the employee.

PER SHARE DATA

Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings Per Share", requires dual presentation of basic and fully diluted earnings per share. Basic earnings per share is calculated by dividing net income by the weighted average number of shares of common stock outstanding at the end of each period. Diluted earnings per share is calculated by increasing the denominator for the assumed conversion of all potentially dilutive securities. The Corporation's dilutive securities are limited to stock options.

CASH FLOW INFORMATION

For purposes of reporting consolidated cash flows, cash and cash equivalents include cash on hand and due from other banks and interest bearing deposits in other banks. The Corporation considers cash classified as interest bearing deposits with other banks as a cash equivalent since they are represented by cash accounts essentially on a demand basis.

TRUST ASSETS AND INCOME

Property held by the Corporation in a fiduciary or agency capacity for its customers is not included in the accompanying consolidated financial statements since such items are not assets of the Corporation. Trust Department income is generally recognized on a cash basis and is not materially different than if it were reported on an accrual basis.

RECENT ACCOUNTING PRONOUNCEMENTS

In December 2007, the Financial Accounting Standards Board (FASB) issued State of Financial Accounting Standards SFAS 141, "Business Combinations". SFAS 141 will significantly change how entities apply the acquisition method to business combinations. The most significant changes affecting how the Corporation will account for business combinations under this Statement include: the acquisition date will be the date the acquirer obtains control; all (and only) identifiable assets acquired, liabilities assumed, and noncontrolling interests in the acquiree will be stated at fair value on the acquisition date; assets or liabilities arising from noncontractual contingencies will be measured at their acquisition date fair value only if it is more likely than not that they meet the definition of an asset or liability on the acquisition date; adjustments subsequently made to the provisional amounts recorded on the acquisition date will be made retroactively during a measurement period not to exceed one year; acquisition related restructuring costs that do not meet the criteria in SFAS 146, "Accounting for Costs Associated with Exit or Disposal Activities", will be expensed as incurred; transaction costs will be expensed as incurred; reversals of deferred income tax valuation allowances and income tax contingencies will be recognized in earnings subsequent to the measurement period; and the allowance for loan losses of an acquiree will not be permitted to be recognized by the acquirer. Additionally, SFAS 141 will require new and modified disclosures surrounding subsequent changes to acquisition related contingencies, contingent consideration, noncontrolling interests, acquisition related transaction costs, fair values and cash flows not expected

to be collected for acquired loans, and an enhanced goodwill rollforward.

The Corporation will be required to prospectively apply SFAS 141 to all business combinations completed on or after January 1, 2009. Early adoption is not permitted. For business combinations in which the acquisition date was before the effective date, the provisions of SFAS 141 will apply to the subsequent accounting for deferred income tax valuation allowances and income tax contingencies and will require any changes in those amounts to be recorded in earnings. Management is currently evaluating the effects that SFAS 141 will have on the financial condition, results of operations, liquidity, and the disclosures that will be presented in the consolidated financial statements.

In December 2007, the FASB issued Statement of Financial Accounting Standards SFAS 160, "Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB 51". SFAS 160 establishes new accounting and reporting standards for noncontrolling interests in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 will require entities to classify noncontrolling interests as a component of stockholders' equity and will require subsequent changes in ownership interest in a subsidiary to be accounted for as an equity transaction. Additionally, SFAS 160 will require entities to recognize a gain or loss upon the loss of control of a subsidiary and to remeasure any ownership interest retained at fair value on that date. This statement also requires expanded disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS 160 is effective on a prospective

basis for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008, except for the presentation and disclosure requirements, which are required to be applied retrospectively. Early adoption is not permitted. The adoption of this standard is not expected to have a material impact on the Corporation's consolidated financial condition, results of operations or liquidity.

EITF 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split Dollar Life Insurance Arrangements", was issued in September 2006 and is effective for fiscal years beginning after December 15, 2007 with earlier application permitted. EITF 06-4 requires that, for split dollar life insurance arrangements that provide a benefit to an employee that extends to postretirement periods, an employer should recognize a liability for future benefits in accordance with SFAS No. 106. EITF 06-4 requires that recognition of the effects of adoption should be either by (a) a change in accounting principle through a cumulative effect adjustment to retained earnings as of the beginning of the year of adoption or (b) a change in accounting principle through retrospective application to all prior periods. The Corporation adopted this standard as of January 1, 2007 through

a cumulative effect adjustment to beginning retained earnings. This adjustment represented a decrease of $36,000 to retained earnings.

In November 2007, the Securities and Exchange Commission issued Staff Accounting Bulletin (SAB) No. 109, which addresses the valuation of written loan commitments accounted for a fair value through earnings. The guidance in SAB 109 expresses the staff's view that the measurement of fair value for a written loan commitment accounted for at fair value through earnings should incorporate the expected net future cash flows related to the associated servicing of the loan. Previously under SAB 105, Application of Accounting Principles to Loan Commitments, this component of value was not incorporated into the fair value of the loan commitment. The Corporation does not account for any written loan commitments at fair value through earnings.

In June 2007, the FASB ratified the consensus reached in EITF 06-11, "Accounting for Income Tax Benefits of Dividends on Share Based Payment Awards". EITF 06-11 applies to entities that have share based payment arrangements that entitle employees to receive dividends or dividend equivalents on equity classified nonvested shares when those dividends or dividend equivalents are charged to retained earnings and result in an income tax deduction. Entities that have share based payment arrangements that fall within the scope of EITF 06-11 will be required to increase capital surplus for any realized income tax benefit associated with dividends or dividend equivalents paid to employees for equity classified nonvested equity awards. Any increase recorded to capital surplus is required to be included in any entity's pool of excess tax benefits that are available to absorb potential future tax deficiencies on share based payment awards. The Corporation will adopt EITF 06-11 on January 1, 2008 for dividends declared on share based payment awards subsequent to this date. The impact of adoption is not expected to have a material impact on financial condition, results of operations, or liquidity.

In April 2007, the FASB issued FSP 39-1, "Amendments of FASB Interpretation No. 39. Offsetting of Amounts Related to Certain Contracts". FSP 39-1 permits entities to offset fair value amounts recognized for multiple derivative instruments executed with the same counterparty under a master netting agreement. FSP 39-1 clarifies that the fair value amounts recognized for the right to reclaim cash collateral, or the obligation to return cash collateral, arising from the same master netting arrangement, should also be offset against the fair value of the related derivative instruments.

Effective January 1, 2008, the Corporation adopted a net presentation for derivative positions and related collateral entered into under master netting agreements pursuant to the guidance in FIN 39 and FSP 39-1. The adoption of this guidance would result in balance sheet reclassifications of certain cash collateral based short term investments against the related derivative liabilities and certain deposit liability balances against the related fair values of derivative assets. The effects of these reclassifications will fluctuate based on the fair values of derivative contracts but overall would not have a material impact on either total assets or total liabilities. The adoption of these standards will not have an impact on the Corporations consolidated financial condition, results of operations or liquidity.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value

Option for Financial Assets and Liabilities". The statement allows an entity to elect to measure certain financial assets and liabilities at fair value with changes in fair value recognized in the income statement each period. The statement also requires additional disclosures to identify the effects of an entity's fair value election on its earnings. The election is irrevocable. The Corporation is currently assessing whether it will elect to adopt SFAS 159.

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards SFAS 158 "Employers' Accounting for Defined Benefit Pension and Other Post Retirement Plans", which requires the Corporation to recognize the funded status of a benefit plan as either assets or liabilities in the consolidated balance sheet and to recognize as a component of other comprehensive income, net of tax, unrecognized actuarial gains or losses, prior service costs and transition obligations that arise during the period. The adoption of SFAS 158 for year ended December 31, 2007 did not have a material impact on the Corporation's consolidated financial position, results of operations, or liquidity.

In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) 157, "Fair Value Measurements", which upon adoption will replace various definitions of fair value in existing accounting literature with a single definition, will establish a framework for measuring fair value, and will require additional disclosures about fair value measurements. The statement clarifies that fair value is the price that would be received to sell an asset or the price paid to transfer a liability in the most advantageous market available to the entity and emphasizes that fair value is a market based measurement and should be based on the assumptions market participants would use. The statement also creates a three level hierarchy under which individual fair value estimates are to be ranked based on the relative reliability of the inputs used in the valuation. This hierarchy is the basis for the disclosure requirements, with fair value estimates based on the least reliable inputs requiring more extensive disclosures about the valuation method used and the gains and losses associated with those estimates. SFAS 157 is required to be applied whenever another financial accounting standard requires or permits an asset or liability to be measured at fair value. The statement does not expand the use of fair value to any new circumstances. The Corporation will be required to apply the new guidance beginning January 1, 2008, and does not expect it to have a material impact on the Corporation's consolidated financial condition, results of operations, or liquidity.

In July 2006, the FASB issued FASB Staff Position FSP 13-2, "Accounting for a Change or Projected Change in the Timing of Cash Flows Related to Income Taxes Generated by a Leveraged Lease Transaction". This FSP amends SFAS 13, "Accounting for Leases", to require a lessor in a leveraged lease transaction to recalculate the leveraged lease for the effects of a change or projected change in

the timing of cash flows relating to income taxes that are generated by the leveraged lease. The guidance in FSP 13-2 was adopted by the Corporation on January 1, 2007. The application of this FSP is not expected to have a material impact on the Corporation's consolidated financial condition, results of operations, or liquidity.

In June 2006, the FASB issued Interpretation No. 48 FIN 48, "Accounting for Uncertainty in Income Taxes", an interpretation of SFAS 109, "Accounting for Income Taxes". FIN 48 prescribes a comprehensive model for how companies should recognize, measure, present, and disclose in their financial statements uncertain tax positions taken or expected to be taken on a tax return. Under FIN 48, tax positions shall initially be recognized in the financial statements when it is more likely than not the position will be sustained upon examination by the tax authorities. Such tax positions shall initially and subsequently be measured as the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement with the tax authority assuming full knowledge of the position and all relevant facts. FIN 48 also revises disclosure requirements to include an annual tabular roll forward of unrecognized tax benefits. The provisions of this interpretation were adopted by the Corporation on January 1, 2007. The adoption of FIN 48 is not expected to have a material impact on the Corporation's consolidated financial condition, result of operations, or liquidity.

In March 2006, the FASB issued Statement of Financial Accounting Standards SFAS 156, "Accounting for Servicing of Financial Assets", an amendment of SFAS 140. This standard requires entities to separately recognize a servicing asset or liability whenever it undertakes an obligation to service financial assets and also requires all separately recognized servicing assets or liabilities to be initially measured at fair value. Additionally, this standard permits entities to choose among two alternatives, the amortization method or fair value measurement method, for the subsequent measurement of each class of separately recognized servicing assets and liabilities. Under the amortization method, an entity shall amortize the value of servicing assets or liabilities in proportion to and over the period of estimated net servicing income or net servicing loss and assess servicing assets or liabilities for impairment or increased obligation based on fair value at each reporting date. Under the fair value measurement method, an entity shall measure servicing assets or liabilities at fair value at each reporting date and report changes in fair value in earnings in the period in which the changes occur.

Effective January 1, 2006, the Corporation adopted this statement by electing amortization method as the measurement method for residential real estate mortgage servicing rights (MSRs).

In February 2006, the FASB issued Statement of Financial Accounting Standards SFAS 155, "Accounting for Certain Hybrid Financial Instruments", which amends SFAS 133, "Accounting for Derivative Instruments and Hedging Activities", and SFAS 140,

"Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities". SFAS 155 requires entities to evaluate and identify whether interests in securitized financial assets are freestanding derivatives, hybrid financial instruments that contain an embedded derivative requiring bifurcation, or hybrid financial instruments that contain embedded derivatives that do not require bifurcation. SFAS 155 also permits fair value measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. This statement was effective for all financial instruments acquired or issued by the Corporation on or after January 1, 2007 and the adoption of SFAS 155 did not have a material impact on the Corporation's consolidated financial condition, results of operations or liquidity.

ADVERTISING COSTS

It is the Corporation's policy to expense advertising costs in the period in which they are incurred. Advertising expense for the three month period ended March 31, 2008 and 2007, was approximately $83,000 and $86,000, respectively.

RECLASSIFICATIONS

Certain amounts in the consolidated financial statements of prior periods have been reclassified to conform with presentation used in the 2008 consolidated financial statements. Such reclassifications have no effect on the Corporation's consolidated financial condition or net income.

NOTE 2. ALLOWANCE FOR LOAN LOSSES

Changes in the allowance for loan losses for the periods ended March 31, 2008, and March 31, 2007, were as follows:

(amounts in thousands)

	2008	2007
Balance, January 1	$5,046	$3,671
Provision charged to operations	50	50
Loans charged off	(16)	(19)
Recoveries	62	13
Balance, March 31	$5,142	$3,715

At March 31, 2008, the recorded investment in loans that are considered to be impaired as defined by SFAS No. 114 was $3,286,000. No additional charge to operations was required to provide for the impaired loans since the total allowance for loan losses is estimated by management to be adequate to provide for the loan loss allowance required by SFAS No. 114 along with any other potential losses.

At March 31, 2008, there were no significant commitments to lend additional funds with respect to non accrual and restructured

loans.

Non accrual loans at March 31, 2008, and December 31, 2007, were $3,287,000 and $3,208,000, respectively.

Loans past due 90 days or more and still accruing interest amounted to $37,000 and $185,000 on March 31, 2008 and December 31, 2007, respectively.

NOTE 3. SHORT-TERM BORROWINGS

Federal funds purchased, securities sold under agreements to repurchase and Federal Home Loan Bank advances generally represent overnight or less than 30 day borrowings. U.S. Treasury tax and loan notes for collections made by the Bank are payable on demand.

NOTE 4. LONG-TERM BORROWINGS

Long term borrowings are comprised of advances from the Federal Home Loan Bank (FHLB). Under terms of a blanket agreement, collateral for the loans are secured by certain qualifying assets of the Corporation's banking subsidiary which consist principally of first mortgage loans and certain investment securities.

NOTE 5. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK AND CONCENTRATIONS OF CREDIT RISK

The Corporation is a party to financial instruments with off balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. The contract or notional amounts of those instruments reflect the extent of involvement the Corporation has in particular classes of financial instruments. The Corporation does not engage in trading activities with respect to any of its financial instruments with off balance sheet risk.

The Corporation's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual notional amount of those instruments.

The Corporation uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

The Corporation may require collateral or other security to support financial instruments with off balance sheet credit risk. The contract or notional amounts at March 31, 2008, and December 31, 2007, were as follows:

(amounts in thousands)

	March 31, 2008	December 31, 2007
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	$44,119	$42,776
Financial standby letters of credit	1,236	1,744
Performance standby letters of credit	2,643	2,471

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses that may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Corporation evaluates each customer's creditworthiness on a case by case basis. The amount of collateral obtained, if deemed necessary by the Corporation upon extension of credit, is based on management's credit evaluation of the counter party. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, and income producing commercial properties.

Standby letters of credit are conditional commitments issued by the Corporation to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Corporation may hold collateral to support standby letters of credit for which collateral is deemed necessary.

The Corporation grants commercial, agricultural, real estate mortgage and consumer loans to customers primarily in the counties of Columbia, Luzerne and Montour, Pennsylvania. It is management's opinion that the loan portfolio was well balanced and diversified at March 31, 2008, to the extent necessary to avoid any significant concentration of credit risk. However, its debtors' ability to honor their contracts may be influenced by the region's economy.

NOTE 6. STOCKHOLDERS' EQUITY

Changes in Stockholders' Equity for the period ended March 31, 2008 were are follows:

(Amounts in thousands, except common share data)

	Common Shares	Common Stock	Surplus
Balance at January 1, 2008	5,687,676	$11,375	$30,252
Comprehensive Income:			
Net Income			
Change in unrealized gain (loss) on investment securities available-for-sale, net of reclassification adjustment and tax effects			
Total Comprehensive income (loss)			
Recognition of stock option expense			9
Cash dividends - $.22 per share			
Balance at March 31, 2008	5,687,767	$11,375	$30,261

(Amounts in thousands, except common share data)

	Compre-hensive Income	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	
Balance at January 1, 2008		$35,705	$(166)	
Comprehensive Income:				
Net Income	$1,722	1,722		
Change in unrealized gain (loss) on investment securities available-for-sale, net of reclassification adjustment and tax effects				784
Total Comprehensive income (loss)				$2,506
Recognition of stock option expense				
Cash dividends - $.22 per share		(1,197)		

Balance at March 31, 2008	$36,230	$618
	=======	====

(Amounts in thousands, except common share data)

	Treasury Stock	Total
Balance at January 1, 2008	$(6,242)	$70,924
Comprehensive Income:		
Net Income		1,722
Change in unrealized gain (loss) on investment securities available-for-sale, net of reclassification adjustment and tax effects		784
Total Comprehensive income (loss)		
Recognition of stock option expense		9
Cash dividends - $.22 per share		(1,197)
Balance at March 31, 2008	$(6,242)	$72,242
	=======	=======

NOTE 7. MANAGEMENT'S ASSERTIONS AND COMMENTS REQUIRED TO BE PROVIDED WITH FORM 10Q FILING

In management's opinion, the consolidated interim financial statements reflect fair presentation of the consolidated financial position of First Keystone Corporation and Subsidiary, and the results of their operations and their cash flows for the interim periods presented. Further, the consolidated interim financial statements are unaudited; however they reflect all adjustments, which are in the opinion of management, necessary to present fairly the consolidated financial condition and consolidated results of operations and cash flows for the interim periods presented and that all such adjustments to the consolidated financial statements are of a normal recurring nature. The independent registered public accounting firm, J. H. Williams & Co., LLP, reviewed these consolidated financial statements as stated in their accompanying review report.

The results of operations for the three month period ended March 31, 2008, are not necessarily indicative of the results to be expected for the full year.

These consolidated interim financial statements have been prepared in accordance with requirements of Form 10Q and therefore do not include all disclosures normally required by accounting principles generally accepted in the United States of America applicable to financial institutions as included with consolidated financial statements included in the Corporation's annual Form 10K filing. The reader of these consolidated interim financial statements may wish to refer to the Corporation's annual report or Form 10K for the period ended December 31, 2007, filed with the Securities and Exchange Commission.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders of First Keystone Corporation:

We have reviewed the accompanying consolidated balance sheet of First Keystone Corporation and Subsidiary as of March 31, 2008, and the related consolidated statements of income and cash flows for the three month periods ended March 31, 2008, and 2007. These consolidated interim financial statements are the responsibility of the management of First Keystone Corporation and Subsidiary.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the consolidated interim financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of First Keystone Corporation and Subsidiary as of December 31, 2007, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated March 11, 2008, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2007, is fairly stated, in all material

respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ J.H. Williams & Co., LLP
J. H. Williams & Co., LLP

Kingston, Pennsylvania
May 7, 2008

Item 2. First Keystone Corporation Management's Discussion and Analysis of Financial Condition and Results of Operation as of March 31, 2008

This quarterly report contains certain forward looking statements (as defined in the Private Securities Litigation Reform Act of 1995), which reflect management's beliefs and expectations based on information currently available. These forward looking statements are inherently subject to significant risks and uncertainties, including changes in general economic and financial market conditions, the Corporation's ability to effectively carry out its business plans and changes in regulatory or legislative requirements. Other factors that could cause or contribute to such differences are changes in competitive conditions, and pending or threatened litigation. Although management believes the expectations reflected in such forward looking statements are reasonable, actual results may differ materially.

The Corporation acquired Pocono Community Bank, Stroudsburg, Pennsylvania, in the fourth quarter of 2007. Period to period comparisons and the Management's Discussion are impacted by this acquisition when 2008 results are compared to 2007.

RESULTS OF OPERATIONS

First Keystone Corporation realized earnings for the first quarter of 2008 of $1,722,000, an increase of $288,000, or 20.1% from the first quarter of 2007. The increase in net income for 2008 was primarily the result of the yield curve steepening and an increase in net interest income of $1,177,000 from the first quarter of 2007. In addition, the first quarter of 2008 reflected the first full quarter of earnings from our Pocono Community Bank acquisition completed in November 2007. Pocono Community Bank operates as a division of First Keystone National Bank. On a per share basis, net income per share was $.32 for the first three months of 2008 equal to $.32 for the first three months of 2007. Cash dividends amounted to $.22 per share, equal to $.22 paid in the first quarter of 2007.

Year to date net income annualized amounts to a return on average common equity of 9.62%, a return on tangible equity of 13.11% and a return on assets of 1.01%. For the three months ended March 31, 2007, these measures were 10.60%, 10.84%, and 1.09%, respectively on an annualized basis.

NET INTEREST INCOME

The major source of operating income for the Corporation is net interest income, defined as interest income less interest expense. In the first quarter of 2008, interest income amounted to $9,351,000, an increase of $1,944,000 or 26.2% from the first quarter of 2007, while interest expense amounted to $4,853,000 in the first quarter of 2008, an increase of $767,000, or 18.8% from the first quarter of 2007. As a result, net interest income increased $1,177,000, or 35.4% in the first quarter of 2008 to $4,498,000 from $3,321,000 in first quarter of 2007.

Our net interest margin for the quarter ended March 31, 2008, was 3.19% compared to 2.96% for the quarter ended March 31, 2007.

PROVISION FOR LOAN LOSSES

The provision for loan losses for the quarter ended March 31, 2008, was $50,000, the same as the provision for the first quarter of 2007. Recoveries exceeded charge offs in the amount of $46,000 for the three months ended March 31, 2008, as compared to net charge offs of $7,000 for the first three months of 2007. The allowance for loan losses as a percentage of loans, net of unearned interest, was 1.34% as of March 31, 2008, the same as 1.34% reported as of December 31, 2007.

NON-INTEREST INCOME

Total non interest income or other income was $1,105,000 for the quarter ended March 31, 2008, as compared to $953,000 for the quarter ended March 31, 2007, an increase of $152,000, or 15.9%. Excluding investment securities gains and losses, non interest income was $1,001,000 for the first quarter of 2008, an increase of $174,000, or 21.0% from the first quarter of 2007. Increases in trust department income, increased service changes and fees, additional income on bank owned life insurance, higher gains on sale of loans, and additional other non interest income were the primary reasons for the higher non interest income in 2008.

NON-INTEREST EXPENSES

Total non interest expenses, or other expenses, was $3,450,000 for the quarter ended March 31, 2008, as compared to $2,491,000 for the quarter ended March 31, 2007. The increase of $959,000, or

38.5% is comprised of salary and benefits increasing $519,000, occupancy and fixed asset expense increasing $119,000, and other non interest expense, including professional services and state shares tax increasing $321,000.

Expenses associated with employees (salaries and employee benefits) continue to be the largest category of non interest expenses. Salaries and benefits amounted to $1,876,000, or 54.4% of total non interest expense for the three months ended March 31, 2008, as compared to 54.5% for the first three months of 2007. Net occupancy and fixed asset expense amounted to $477,000 for the three months ended March 31, 2008, an increase of $119,000, or 33.2%. Other non interest expenses, including professional services and state shares tax amounted to $1,097,000 for the three months ended March 31, 2008, an increase of $321,000, or 41.4% from the first three months of 2007. Our non interest expense in the first quarter of 2008 continues to be approximately 2.0% of average assets on an annualized basis, which places us among the leaders of our peer financial institutions at controlling total non interest expense.

In March 2008, we successfully converted Pocono Community Bank to our core processing system. This conversion will improve efficiency and provide future cost savings from the termination of Pocono's computer contract and the reduction in employees.

INCOME TAXES

Effective tax planning has helped produce favorable net income. Income tax amounted to $381,000 for the three months ended March 31, 2008, as compared to $299,000 for 2007, an increase of $82,000. The effective total income tax rate was 18.1% for the first quarter of 2008 as compared to 17.3% for the first quarter of 2007.

ANALYSIS OF FINANCIAL CONDITION

ASSETS

Total assets increased slightly to $681,636,000 as of March 31, 2008, an increase of $429,000 from year end 2007. Total deposits increased to $516,662,000 as of March 31, 2008, an increase of $23,621,000, or 4.8% over year end 2007. The increase in deposits funded loan growth and a reduction in short term borrowings.

During the first quarter of 2007 the Corporation reduced short term borrowings to $14,199,000 as of March 31, 2008, as compared to $47,349,000 as of December 31, 2007. Long term borrowings were $73,159,000 as of March 31, 2008, an increase from the $66,175,000 reported December 31, 2007.

EARNING ASSETS

Our primary earning asset, loans, net of unearned income

increased to $384,474,000 as of March 31, 2008, up $7,871,000, or 2.1% since year end 2007. The loan portfolio continues to be diversified. Overall asset quality has remained stable with non performing assets decreasing slightly since year end 2007. Total allowance for loan losses to total non performing assets was 149.1% as of March 31, 2008, up from 145.9% at year end 2007.

Besides loans, another primary earning asset is our overall investment portfolio, which decreased in size from December 31, 2007, to March 31, 2008. Held to maturity securities amounted to $4,535,000 as of March 31, 2008, a decrease of $3,000 from December 31, 2007. Available for sale securities amounted to $223,406,000 as of March 31, 2008, a decrease of $18,115,000 from year end 2007. Interest bearing deposits with banks increased as of March 31, 2008, to $4,809,000 from $89,000 at year end 2007.

ALLOWANCE FOR LOAN LOSSES

Management performs a quarterly analysis to determine the adequacy of the allowance for loan losses. The methodology in determining adequacy incorporates specific and general allocations together with a risk/loss analysis on various segments of the portfolio according to an internal loan review process. Management maintains its loan review and loan classification standards consistent with those of its regulatory supervisory authority. Management feels, considering the conservative portfolio composition, which is largely composed of small retail loans (mortgages and installments) with minimal classified assets, low delinquencies, and favorable loss history, that the allowance for loan loss is adequate to cover foreseeable future losses.

Any loans classified for regulatory purposes as loss, doubtful, substandard, or special mention that have not been disclosed under Industry Guide 3 do not (i) represent or result from trends or uncertainties which management reasonably expects will materially impact future operating results, liquidity, or capital resources, or (ii) represent material credits about which management is aware of any information which causes management to have serious doubts as to the ability of such borrowers to comply with the loan repayment terms.

The Corporation was required to adopt Financial Accounting Standards Board Statement No. 114, "Accounting by Creditors for Impairment of a Loan" - Refer to Note 2 above for details.

NON-PERFORMING ASSETS

Non performing assets consist of non accrual and restructured loans, other real estate and foreclosed assets, together with loans past due 90 days or more and still accruing. As of March 31, 2008, total non performing assets were $3,448,000 as compared to $3,458,000 on December 31, 2007. Non performing assets to total loans and foreclosed assets was 0.90% as of March 31, 2008, and 0.92% as of December 31, 2007.

Interest income received on non performing loans as of March 31, 2008, was $18,000 compared to $147,000 for the year ending of December 31, 2007. Interest income, which would have been recorded on these loans under the original terms as of March 31, 2008, and December 31, 2007, were $78,000 and $175,000, respectively. As of

March 31, 2008 and December 31, 2007, there were no outstanding commitments to advance additional funds with respect to these non performing loans.

DEPOSITS AND OTHER BORROWED FUNDS

As indicated previously, total deposits increased $23,621,000 as non-interest bearing deposits decreased by $720,000 and interest bearing deposits increased by $24,341,000 as of March 31, 2008, from year end 2007. Total short term and long term borrowings decreased to $87,358,000 as of March 31, 2008, from $113,524,000 at year end 2007, a decrease of $26,166,000, or 23.0%.

CAPITAL STRENGTH

Normal increases in capital are generated by net income, less cash dividends paid out. Also, accumulated other comprehensive income derived from unrealized gains or losses on investment securities available for sale increased shareholders' equity, or capital net of taxes, by $617,000 as of March 31, 2008, and reduced equity by $166,000 as of December 31, 2007. A factor which reduced total equity capital as of March 31, 2008, and year end 2007 relates to stock repurchase. The Corporation had 247,691 shares of common stock on March 31, 2008 and December 31, 2007, as treasury stock. This had an effect of our reducing our total stockholders' equity by $6,242,000 on both March 31, 2008, and December 31, 2007.

Total stockholders' equity was $72,242,000 as of March 31, 2008, and $70,924,000 as of December 31, 2007. Leverage ratio and risk based capital ratios remain very strong. As of March 31, 2008, our leverage ratio was 7.64% compared to 7.96% as of December 31, 2007. In addition, Tier I risk based capital and total risk based capital ratio as of March 31, 2008, were 11.77% and 12.97%, respectively. The same ratios as of December 31, 2007 were 11.86% and 13.06%, respectively.

LIQUIDITY

The liquidity position of the Corporation remains adequate to meet customer loan demand and deposit fluctuation. Managing liquidity remains an important segment of asset liability management. Our overall liquidity position is maintained by an active asset liability management committee.

Management feels its current liquidity position is satisfactorily given a very stable core deposit base which has increased annually. Secondly, our loan payments and principal paydowns on our mortgage backed securities provide a steady source of funds. Also, short term investments and maturing investment securities represent additional sources of liquidity. Finally, short-term borrowings are readily accessible at the Federal Reserve Bank, Atlantic Central Bankers Bank, or the Federal Home Loan Bank.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

There have been no material changes in the Company's quantitative and qualitative market risks since December 31, 2007. The composition of rate sensitive assets and rate sensitive liabilities as of March 31, 2008 is very similar to December 31, 2007.

Item 4. Controls and Procedures

a) Evaluation of disclosure controls and procedures. The company maintains controls and procedures designed to ensure that information required to be disclosed in the reports that the company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. Based upon their evaluation of those controls and procedures performed within 90 days of the filing date of this report, the chief executive and chief financial officers of the company concluded that the company's disclosure controls and procedures were adequate.

b) Changes in internal controls. The Company made no significant changes in its internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation of the controls by the Chief Executive and Chief Financial officers.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. There have been no material changes to the risk factors disclosed in Item 1A "Risk Factors" in our Annual Report on Form 10K for the year ended December 31, 2007.

Item 2. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities

Total Number of Shares Purchased	Maximum Number of Shares That

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
January 1 – January 31, 2008	----	----	----	112,098
February 1 – February 29, 2008	----	----	----	112,098
March 1 – March 31, 2008	----	----	----	112,098
Total	----	----	----	112,098

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

Annual Meeting of Shareholders of First Keystone Corporation held on Tuesday, May 6, 2008, at 10:00 a.m.

Directors Elected	Votes For	Votes Against	Votes Withheld
Don E. Bower	4,523,664	13,301	0
Robert A. Bull	4,342,535	194,430	0
Dudley P. Cooley	4,522,664	14,301	0

Directors Elected	Abstentions	Broker Non-Votes
Don E. Bower	0	0
Robert A. Bull	0	0
Dudley P. Cooley	0	0

Directors Continuing:

Jerome F. Fabian, term expires in 2009
David R. Saracino, term expires in 2009
Robert J. Wise, term expires in 2009
John E. Arndt, term expires in 2010
J. Gerald Bazewicz, term expires in 2010
Robert E. Bull, term expires in 2010

Matters Voted Upon:

Selection of J. H. Williams & Co. LLP, as auditors for the Corporation.

Votes For - 4,496,980
Votes Against - 5,408
Votes Withheld - 0
Abstentions - 34,577
Broker Non-Votes - 0

Item 5. Other Information

The Company made no material changes to the procedures by which shareholders may recommend nominees to the Company's Board of Directors.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits required by Item 601 Regulation S-K

Exhibit Number	Description of Exhibit
3i	Articles of Incorporation, as amended (Incorporated by reference to Exhibit 3(i) to the Registrant's Report on Form 10Q for the quarter ended March 31, 2006).
3ii	By-Laws, as amended (Incorporated by reference to Exhibit 3(ii) to the Registrant's Report on Form 10Q for the quarter ended March 31, 2006).
10.1	Supplemental Employee Retirement Plan (Incorporated by reference to Exhibit 10 to the Registrant's Report on Form 10Q for the quarter ended September 30, 2005).

10.2	Management Incentive Compensation Plan (Incorporated by reference to Exhibit 10 to the Registrant's Report on Form 10Q for the quarter ended September 30, 2006).
10.3	Profit Sharing Plan (Incorporated by reference to Exhibit 10 to the Registrant's Report on Form 10Q for the quarter ended September 30, 2006).
10.4	First Keystone Corporation 1998 Stock Incentive Plan (Incorporated by reference to Exhibit 10 to the Registrant's Report on Form 10Q for the quarter ended September 30, 2006).
14	Code of Ethics (Incorporated by reference to Exhibit 14 to the Registrant's Report on Form 8K dated January 9, 2007).
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.
32.1	Section 1350 Certification of Chief Executive Officer.
32.2	Section 1350 Certification of Chief Financial Officer.

FIRST KEYSTONE CORPORATION

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly cause this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FIRST KEYSTONE CORPORATION
Registrant

May 9, 2008

/s/ J. Gerald Bazewicz
J. Gerald Bazewicz
President and
Chief Executive Officer
(Principal Executive Officer)

May 9, 2008 /s/ Diane C.A. Rosler
Diane C.A. Rosler
Chief Financial Officer
(Principal Accounting Officer)

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14	Code of Ethics (Incorporated by reference to Exhibit 14 to the Registrant's Report on Form 8K dated January 9, 2007).
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.
32.1	Section 1350 Certification of Chief Executive Officer.
32.2	Section 1350 Certification of Chief Financial Officer.

">June 30, (in thousands)	2009	2008
Cash flows from operating activities:		
Net income	$1,315	$1,884
Adjustments to reconcile net income to net cash provided by operating activities, net of acquisition:		
Depreciation and amortization	1,322	1,709
Provision (benefit) for deferred income taxes	544	(258)
Bad debt expense (recovery)	84	(29)
Stock based compensation expense	368	250
Loss from discontinued operations		445
Changes in operating assets and liabilities, net of acquisitions:		
Decrease in accounts receivable	2,772	766
Decrease (increase) in prepaid expenses and other current assets	208	(203)
Decrease (increase) in other assets	108	(24)
(Decrease) increase in accounts payable	(1,734)	626
(Decrease) increase in accrued expenses and other current liabilities	(1,013)	1,098
(Decrease) increase in deferred revenue	(2,546)	987
Increase in other liabilities	28	24
Decrease in net assets held for sale		313
Cash provided by activities from continuing operations	$1,448	$7,588
Cash used by discontinued operations		(758)
Net cash provided by operating activities	$1,448	$6,830

Cash flows from investing activities:

Purchases of property and equipment
(1,567) (1,765)
Net cash received for sale of assets of discontinued operations
500
Net cash paid for acquisition
(8,193)

Net cash used in investing activities from continuing operations
$(1,067) $(9,958)
Purchase of plant, property, equipment for discontinued operations
(240)

Net cash provided used in investing activities
$(1,067) $(10,198)

Cash flows from financing activities:

Payments under equipment lease obligations
(33) (111)
Excess tax benefit related to stock options
50
Proceeds from exercise of stock options
3 352

Net cash (used in) provided by financing activities from continuing operations
$(30) $291

Effect of exchange rate changes on cash
(2) 209

Net increase (decrease) in cash and cash equivalents
$349 $(2,868)
Cash and cash equivalents at beginning of period

$14,265 $17,915

Cash and cash equivalents at end of period
$14,614 $15,047

BIOCLINICA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

(in thousands)	For the Six Months Ended June 30, 2009	2008
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	$ 5	$ 3
Cash paid during the period for income taxes	$ 72	$ 1,050
Schedule of non cash investing and financing activities:		
Increase in property, plant and equipment acquisitions in accounts payable	$ 11	$ 22
Acquired business:		
Accounts receivable	$	$ 4,926
Prepaid and other current assets		258
Property and equipment		741
Other assets		37
Intangible assets and goodwill		23,871
Current liabilities assumed		(1,062)
Other liabilities assumed		(4,474)
Common stock issued		(16,104)
Cash paid for acquired business, net of cash acquired for the six months ended June 30, 2008 of $418	$	$ 8,193
STATEMENT OF COMPREHENSIVE INCOME:		
Net income	$ 1,315	$ 1,884
Equity adjustment from foreign currency translation	(67)	111
Total comprehensive income	$ 1,248	$ 1,995

See Notes to Consolidated Financial Statements

BIOCLINICA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Note 1 Interim Financial Statements

Basis of Presentation.

On July 8, 2009, our shareholders approved an amendment to our Certificate of Incorporation, as amended, to change our name from Bio-Imaging Technologies, Inc. to BioClinica, Inc.

The financial statements included in this Quarterly Report on Form 10-Q have been prepared by us, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP in the United States of America have been condensed or omitted pursuant to such rules and regulations. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2008.

In the opinion of management, the accompanying consolidated financial statements contain all adjustments, consisting solely of those which are of a normal recurring nature, necessary for a fair statement of the results for the interim periods.

Interim results are not necessarily indicative of results for the full fiscal year.

Certain reclassifications have been made to the 2008 financial statements to conform to the 2009 financial statement presentation. We have reclassed the amortization of intangible assets related to acquisitions as a separate component of the consolidated statements of income.

The Balance Sheet at December 31, 2008 includes Phoenix Data Systems, Inc., a Pennsylvania corporation, hereinafter referred to as PDS, due to the acquisition of PDS by BioClinica on March 24, 2008. The Consolidated Statement of Income for the six months ended June 30, 2008 excludes the financial results of PDS from the acquisition date of March 24, 2008 through March 31, 2008 due to the immateriality of PDS s results of operations for that period.

BIOCLINICA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Functional Currency.

The functional currency for our French and Netherlands operations is the Euro based on our initial and periodic evaluations of economic factors as set forth in Financial Accounting Standards Board (FASB) Statement No. 52, Foreign Currency Translation (SFAS 52).

Note 2 Restructuring charges

In the second quarter of 2009, in order to streamline the operations and reduce costs, Management decided to eliminate certain positions and consolidate redundant departments. This resulted in restructuring charges of $466,000 consisting of $439,000 in employee severance and $27,000 in other close down costs.

The Company has paid $55,000 of the restructuring cost as of June 30, 2009 and $411,000 remaining to be paid is included in Accrued Expense and Other Current Liabilities on the Consolidated Balance Sheet. The $411,000 remaining to be paid of the restructuring cost primarily consists of the severance to employees and will all be paid out by December 31, 2009. The Company expects to realize an annual savings of $1.6 million from the restructuring.

Note 3 Stockholders Equity Rollforward

The following summarizes the activity of the stockholders equity accounts for the period from December 31, 2008 through June 30, 2009:

(in thousands)	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income	Stockholders Equity
Balance at December 31, 2008	14,341	$ 4	$ 42,270	$ 1,080	$ 58	$ 43,412
Stock options exercised	1		3			3
Restricted shares issued	15		(31)			(31)
Stock based compensation			396			396
Equity adjustment from foreign currency translation					(67)	(67)
Net income				1,315		1,315
Balance at June 30, 2009	14,357	$ 4	$ 42,638	$ 2,395	$ (9)	$ 45,028

Note 4 Earnings Per Share

Basic income per common share for the three and six months ended June 30, 2009 and 2008 was calculated based upon net income divided by the weighted average number of shares of our common stock outstanding during the period. Diluted income per share for the three and six months ended June 30, 2009 and 2008 was calculated based upon net income divided by the weighted average number of shares of our common stock outstanding during the period, adjusted for dilutive securities using the treasury method.

BIOCLINICA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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The computation of basic income per common share and diluted income per common share was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Net income basic and diluted	$ 529	$ 1,884	$ 1,315	$ 1,061
Denominator basic:				
Weighted average number of common shares	14,357	13,157	14,341	14,279
Basic income per common share	$ 0.04	$ 0.14	$ 0.09	$ 0.07
Denominator diluted:				
Weighted average number of common shares	14,357	13,157	14,341	14,279
Common share equivalents of outstanding stock options	487	774	470	705
Common share equivalents of unrecognized compensation expense	274	183	290	184
Weighted average number of dilutive common equity shares	15,118	14,114	15,101	15,168
Diluted income per common share	$ 0.04	$ 0.13	$ 0.09	$ 0.07

Options to purchase 628,000 and 311,000 shares of our common stock respectively, had been excluded from the calculation of diluted earnings per common share for the six months ended June 30, 2009 and June 30, 2008, respectively, as they were all antidilutive. Options to purchase 628,000 and 318,000 shares of our common stock respectively, had been excluded from the calculation of diluted earnings per common share for the three months ended June 30, 2009 and June 30, 2008, respectively, as they were all antidilutive.

Note 5 Commitments and Contingencies

On March 4, 2009, the Company entered into an employment agreement with its President and Chief Executive Officer effective March 1, 2009 and expires on February 28, 2012. In addition, the Company has employment agreements with both its Chief Financial Officer and the President of its eClinical division. The Chief Financial Officer s agreement expires February 23, 2010 and is renewable on an annual basis. The President of eClinical division s agreement expires September 30, 2009 and is

BIOCLINICA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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renewable on an annual basis. The aggregate amount due from January 1, 2009 through the expiration under these agreements was $1,209,156.

Note 6 Accounts Receivable and Allowance for Doubtful Accounts

We maintain allowances for doubtful accounts on a specific identification method for estimated losses resulting from the inability of our customers to make required payments. If the financial condition of our customers were to deteriorate, resulting in an impairment of our customers ability to make payments, additional allowances may be required. We do not have any off-balance-sheet credit exposure related to our customers, and the trade accounts receivable do not bear interest.

(in thousands)	June 30, 2009	December 31, 2008
Billed trade accounts receivable	$ 8,513	$ 10,091
Unbilled trade accounts receivable	584	1,863
Other	22	28
Total Receivables	$ 9,119	$ 11,982

Allowance Rollforward (in thousands):	
Balance at January 1, 2009	$ 11
Additions	95
Write offs and Recoveries	(106)
Balance at June 30, 2009	$ 0

Note 7 Income Taxes

The Company records a valuation allowance to reduce its deferred tax assets to an amount that is more likely than not to be realized. In assessing the need for the valuation allowance, the Company considers future taxable income and on-going prudent and feasible tax planning strategies. In the event that the Company was to determine that, in the future, they would be able to realize the deferred tax assets in excess of its net recorded amount, an adjustment to the deferred tax asset would be made, thereby increasing net income in the period such determination was made. Likewise, should the Company determine that it is more likely than not that it will be unable to realize all or part of the net deferred tax asset in the future, an adjustment to the deferred tax asset would be charged, thereby decreasing net income in the period such determination was made.

The Company has accumulated tax losses, which include allowable deductions related to exercised employee stock options, generating federal net operating loss (NOL) credit carryforwards of $1.1 million as of June 30, 2009. These losses will expire, if unused, in the years 2009 through 2022. Under limitations imposed by Internal Revenue Code Section 382, certain potential changes in ownership of the Company, which may be outside the Company s knowledge or control, may restrict future utilization of these NOL credit carryforwards. GAAP requires that the Company establish a valuation allowance for any portion of its deferred tax assets for which management believes that it is more likely than not the Company will be unable to utilize the asset to offset future taxes. The Company will

BIOCLINICA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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continue to evaluate the potential use of its deferred tax assets and the need for a valuation allowance by considering future taxable income and on-going prudent and feasible tax planning strategies. Subsequent revisions to the estimated realizable value of the deferred tax assets could cause the provision for income taxes to vary significantly from period to period, although the cash tax payments would remain unaffected until the NOL credit carryforward is fully utilized or has expired. Our deferred tax assets are primarily comprised of the temporary book to tax differences related to deferred revenue.

The Company recognizes contingent liabilities for any tax related exposures when those exposures are reasonably possible.

For the six months ended June 30, 2009 and 2008, the tax benefit of the stock option deductions recorded to additional paid in capital was $0 and $50,000, respectively.

The Company has not provided for U.S. federal income and foreign withholding taxes on approximately $2.9 million of undistributed earnings from its non-U.S. operations as of June 30, 2009 because such earnings are intended to be reinvested indefinitely outside of the United States.

We apply FASB Interpretation No. 48 Accounting for Uncertainty in Income Taxes (FIN 48). FIN 48 prescribes a recognition threshold that a tax position is required to meet before being recognized in the financial statements.

There were no material unrecognized tax benefits as of June 30, 2009 and December 31, 2008. We do not expect the unrecognized tax benefit to materially change during the next 12 months. Any interest and penalties incurred on settlements of outstanding tax positions would be recorded as a component of tax expense. We file our tax returns as prescribed by the tax laws of the jurisdictions in which we operate. Our federal tax returns for years 2005 through 2007 are subject to examination. Our state taxes for years 2000 through 2007 are subject to examination. Our foreign taxes for years 2002 through 2006 are subject to examination by the respective authorities.

Note 8 Acquisition

On March 24, 2008, BioClinica acquired Phoenix Data Systems, Inc. (PDS) to expand our pharmaceutical services in the area of electronic data capture and other eClinical data solutions to our clients (the Acquisition). The Acquisition was made pursuant to an Agreement and Plan of Merger (the PDS Merger Agreement), dated March 24, 2008, by and among the Company, BioClinica Acquisition Corporation, a Pennsylvania corporation and wholly-owned subsidiary of the Company (Merger Sub), and PDS and its Stockholders Representative. Pursuant to the terms of the PDS Merger Agreement, PDS merged with and into Merger Sub. Following the consummation of the Acquisition, PDS ceased to exist and Merger Sub became a wholly-owned subsidiary of the Company. In connection with the Acquisition, the Company also entered into employment agreements with members of the senior management team of PDS. However, none of these individuals are executive officers of the Company.

Under the terms of the PDS Merger Agreement, the Company acquired all of PDS s outstanding capital stock. The total consideration paid by the Company to the PDS stockholders was $23.9 million, comprised of $6.9 million in cash and 2.3 million shares of common stock, par value $0.00025 per share,

BIOCLINICA, INC. AND SUBSIDIARIES
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of the Company, with an average closing price per share over the last 30 trading days ending and including March 19, 2008 of $7.42. The aggregate purchase price was subject to a post-closing adjustment based on the Tangible Net Worth (as defined in the PDS Merger Agreement) of PDS on the Closing Date (as defined in the PDS Merger Agreement). Pursuant to the terms of the PDS Merger Agreement, five percent of the aggregate consideration was held in escrow for the finalization of the Closing Tangible Net Worth Statement (as defined in the PDS Merger Agreement). On June 13, 2008, BioClinica and the Stockholders Representative agreed to a decrease of $230,000 to the purchase price due to the minimum threshold to the Closing Tangible Net Worth Statement not being achieved. BioClinica received $64,000 in cash back in June 2008 and 22,453 shares of our common stock back in July 2008 from the purchase price escrow. Additionally, ten percent of the aggregate consideration was to be held in escrow to cover any potential indemnification claims under the PDS Merger Agreement for a period ending no later than March 31, 2009. There were no indemnification claims and this amount was paid to the stockholders in April 2009. We also incurred approximately $1.1 million in Acquisition costs. At the Acquisition date, the stock was recorded at an average price of $7.04 per share.

In connection with the Acquisition, the stockholders of PDS entered into various agreements. The stockholders of PDS executed stockholders agreements, whereby each stockholder agreed, among other things, to approve the Acquisition and not to compete in the business area occupied by PDS at the time of the Acquisition for a reasonable period of time. All stockholders executed lockup agreements, whereby all stockholders agreed not to directly or indirectly sell, or otherwise dispose of any shares of the Company s common stock received pursuant to the PDS Merger Agreement for a period of 180 days after the Closing Date (the Initial Lockup Period Date), and certain additional stockholders agreed not to directly or indirectly offer, sell, contract to sell, pledge, grant any option to purchase, make any short sale or otherwise dispose of 67% of the shares of the Company s common stock received pursuant to the PDS Merger Agreement for a period beginning on the Initial Lockup Period Date and continuing to and including the date of the first anniversary of the Closing Date.

The following table summarizes the final allocation of the total cost of the PDS acquisition to the assets acquired and the liabilities assumed.

(in thousands)	
Net Working Capital	$ 701
Fixed Assets	721
Other Assets	46
Other Liabilities	(175)
Deferred Tax Liability	(854)
Software	552
Trademark	48
Customer Backlog	730
Customer Relationships	665
Non-Compete Agreements	138
Goodwill, including Workforce	21,366
Total Purchase Price	$ 23,938

The results of operations of PDS from the acquisition date, March 24, 2008 to March 31, 2008 were immaterial; therefore, the Company did not include the results of operations for those eight days in the Consolidated Statement of Income for the twelve months ended December 31, 2008.

BIOCLINICA, INC. AND SUBSIDIARIES
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Pro Forma Results. The following schedule includes consolidated statements of income data for the unaudited pro forma results for the six months ended June 30, 2008 as if the Acquisition had occurred as of the beginning of the period presented after giving effect to certain adjustments. The pro forma results for the six months ended June, 30, 2008 include $789,000 of Acquisition costs incurred by PDS. The unaudited pro forma information is provided for illustrative purposes only and is not indicative of the results of operations or financial condition that would have been achieved if the Acquisition would have taken place at the beginning of the period presented and should not be taken as indicative of our future consolidated results of operations or financial condition. Pro forma adjustments are tax-effected at our effective tax rate.

(in thousands)	Six Months Ended June 30, 2008
Total revenue	$ 37,983
Income from continuing operations before interest and taxes	2,057
Income from continuing operations, net of taxes	1,378
Basic earnings per share:	
Income from continuing operations	$ 0.10
Diluted earnings per share:	
Income from continuing operations	$ 0.09

In the second quarter of 2009, as a result of a potential acquisition which was terminated, we incurred $734,000 of acquisition related costs and received $750,000, comprised of a $500,000 break-up fee and $250,000 expense reimbursement, from the target company, resulting in a $16,000 gain on the transaction.

Note 9 Discontinued Operations and Assets Held for Sale

In the fourth quarter of 2008, the Company classified its interest in the CapMed business as held for sale. On January 6, 2009, pursuant to the Asset Purchase Agreement by and among the Company and MBI Benefits, Inc. (the Purchaser), an indirectly owned subsidiary of Metavante Technologies, Inc. (Metavante), dated as of January 6, 2009 (the Agreement), the Company sold its CapMed Division, including the division s Personal Health Record (PHR) software and the patent-pending Personal HealthKey technology, to Metavante. Under the terms of the Agreement, Metavante paid the Company an upfront payment of five hundred thousand dollars ($500,000) in cash and will make an earn-out payment to the Company based upon a percentage of the gross revenues recognized by Metavante for contracts entered into with certain prospects set forth on a schedule during certain time periods in 2009 and 2010. The Company will receive 25% of the gross revenues recognized by Metavante during any period ending on or prior to December 31, 2010 from the sale pursuant to any contract the Purchaser entered into with certain prospects during the first six months of 2009. Additionally, the Company will receive 15% of the gross revenues recognized by Metavante during any period ending on or prior to December 31, 2010 from the sale pursuant to any contract the Purchaser enters into with certain

BIOCLINICA, INC. AND SUBSIDIARIES
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prospects during the period commencing on July 1, 2009 and ending on December 31, 2010. There were no earn out payments made during the six months ended June 30, 2009.

As a result of the sale, the results of the CapMed operations, which had previously been presented as a separate reporting segment, are included in discontinued operations in the Company s consolidated statements of operations. In addition, any assets and liabilities related to these discontinued operations are presented separately on the consolidated balance sheets, and any cash flows related to these discontinued operations are presented separately in the consolidated statements of cash flows. All prior period information has been reclassified to be consistent with the current period presentation. As of June 30, 2009, there were no assets or liabilities related to this discontinued operation.

Our exit of the CapMed business resulted, in part, from our strategy to exit non-strategic businesses. The following amounts related to the CapMed operations were derived from historical financial information and have been segregated from continuing operations and reported in discontinued operations:

	Six Months Ended June 30, 2008
Service revenues	$ 251
Costs and expenses	1,393
Loss from impairment	
Pretax loss	(1,142)
Benefit from income taxes	427
Net loss from discontinued operations	$ (715)

The following is a summary of the assets and liabilities of the CapMed discontinued operations as of December 31, 2008. The amounts presented below were derived from historical financial information and adjusted to exclude intercompany receivables and payables between CapMed discontinued operations and the Company (in thousands):

Current Assets	27
Fixed Assets	1,257
Net Assets	$ 1,284

The company recognized a pretax loss of $5.0 million ($3.0 million, net of income taxes), which was recognized in the fourth quarter of 2008.

BIOCLINICA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 10 Intangible Assets

At June 30, 2009 the composition of intangible assets were as follows:

(in thousands)		June 30, 2009	Estimated Useful Life
Amortized intangible assets:			
Technology	$	843	5 years
Trademarks		48	5 years
Customer backlog		1,612	3 to 7 years
Non-competition agreement		349	2 to 3 years
		2,852	
Accumulated amortization		(1,025)	
	$	1,827	
Unamortized intangible assets:			
Goodwill	$	27,391	

Estimated future amortization of the intangible assets is as follows:

		Fiscal years ending
2009	$	225
2010		423
2011		379
2012		324
2013		227
Thereafter		249
	$	1,827

Note 11 Subsequent Events

Management evaluated all activity of BioClinica through August 6, 2009 (the issue date of the Financial Statements) and concluded that no subsequent events have occurred that would require recognition in the Financial Statements or disclosure in the Notes to the Financial Statements.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.

Overview

On July 8, 2009, our shareholders approved an amendment to our Certificate of Incorporation, as amended, to change our name from Bio-Imaging Technologies, Inc. to BioClinica, Inc.

BioClinica, Inc. is a global clinical trials service organization, providing medical image management and eClinical services, including electronic data capture and clinical data management solutions, to pharmaceutical, biotechnology, medical device companies and other organizations, including contract research organizations (CROs), engaged in clinical trials.

Our medical image management services assist our clients in the design and management of the medical imaging component of clinical trials. We have developed specialized services and proprietary software applications that enable independent radiologists and other medical specialists involved in clinical trials to review medical image data in an entirely digital format and make highly precise measurements and biostatistical inferences to evaluate the efficacy and safety of pharmaceuticals, biologics or medical devices. Medical imaging is used for clinical development of therapeutic modalities for use in oncology, disorders of the musculoskeletal, central nervous, cardiovascular systems, and in a variety of other disease categories.

Our core laboratory imaging services include the collection, processing, analysis and regulatory submission of medical images and related clinical data. Medical images are received from a wide variety of imaging modalities including computerized tomography (CT), magnetic resonance imaging (MRI), radiography, dual energy x-ray absorptiometry (DXA/DEXA), positron emission tomography (PET), single photon emission computerized tomography (SPECT), quantitative coronary angiography (QCA), cardiac MRI and CT, intravascular ultrasound (IVUS), peripheral quantitative angiography (QVA), central nervous system (CNS) MRI and ultrasound. The resulting data enables our clients and regulatory reviewers, primarily the U.S. Food and Drug Administration and comparable European agencies, to evaluate product efficacy and safety.

On March 24, 2008, we completed the acquisition of Phoenix Data Systems, referred to herein as PDS, a provider of electronic data capture (EDC) services offering a comprehensive array of eClinical data solutions to the pharmaceutical and biotechnology industries. PDS is engaged in providing full service EDC, a combination of electronic data capture, interactive voice response, reporting and data management solutions and is focused on making the process of collecting and analyzing data from clinical trials faster, easier and more reliable.

Our eClinical services offer a variety of customizable proprietary software solutions that enhance pharmaceutical and biotech companies ability to process and store clinical data through the use of customized proprietary software and hosting service. This technology improves data quality and allows our sponsors to see the results of their clinical trials faster and more accurately than with conventional paper-based methods.

Our sales cycle, referring to the period from the presentation by us to a potential client to the engagement of us by such client, has historically ranged from three to 12 months. In addition, the contracts under which we perform services typically cover a period of three to 60 months and the volume and type of services performed by us generally vary during the course of a project. We cannot assure you that our project revenues will be at levels sufficient to maintain profitability.

Our contracted/committed backlog, referred to as backlog, is the expected service revenue that remains to be earned and recognized on both signed and verbally agreed to contracts. Our backlog as of June 30, 2009, which includes our medical image management and eClinical services, was $94.1 million compared to $93.3 million at March 31, 2009 and $115.8 million at June 30, 2008.

Contracts included in backlog are subject to termination by our clients at any time. In the event that a contract is cancelled by the client, we would be entitled to receive payment for all services performed up to the cancellation date. The duration of the projects included in our backlog range from less than three months to seven years. We do not believe that backlog is a reliable predictor of future results because service revenues may be incurred in a given period on contracts that were not included in the previous reporting period s backlog and/or contract cancellations or project delays may occur in a given period on contracts that were included in the previous reporting period s backlog.

We believe that the short-term market for our services has been adversely impacted by pharmaceutical companies response to overall economic conditions, resulting in some contract decisions being delayed and major projects being split into smaller components as part of a revised budgetary approval process. On a long term basis, we believe that the recognition within the bio-pharmaceutical industry of the operational efficiency and scalable reliability of using an independent centralized core laboratory for analysis of medical-imaging data and compliance with the regulatory demands for the submission of such data will continue to drive demand for our services. We also believe that rapidly growing recognition of the inherent advantages of eClinical/EDC technology to standardize and accelerate reliable data flow from the clinical trial sites to the clinical trial sponsor will further drive the adoption and growth of our eClinical service offerings. We believe our eClinical services favorably compare to the traditional process of manual data collection on paper case report forms that are more susceptible to transcription and other data entry errors.

Forward Looking Statements

Certain matters discussed in this Form 10-Q are forward-looking statements intended to qualify for the safe harbors from liability established by the Private Securities Litigation Reform Act of 1995. Such forward-looking statements may be identified by, among other things, the use of forward-looking terminology such as believes , expects , may , wi should or anticipates or the negative thereof or other variations thereon or comparable terminology, or by discussions of strategy that involve risks and uncertainties. In particular, our statements regarding: our projected financial results; the demand for our services and technologies; growing recognition for the use of independent centralized core laboratories; trends toward the outsourcing of imaging services in clinical trials; realized return from our marketing efforts; increased use of digital medical images in clinical trials; integration of our acquired companies and businesses; expansion into new business segments; the success of any potential acquisitions and the integration of current acquisitions; and the level of our backlog are examples of such forward-looking statements. The forward-looking statements include risks and uncertainties, including, but not limited to, the timing of revenues due to the variability in size, scope and duration of projects, estimates made by management with respect to our critical accounting policies, regulatory delays, clinical study results which lead to reductions or cancellations of projects, and other factors, including general economic conditions and regulatory developments, not within our control. The factors discussed in this Form 10-Q and expressed from time to time in our filings with the SEC, as well as the risk factors set forth in our Annual Report on Form 10-K for the year ended December 31, 2008, could cause actual results and developments to be materially different from those expressed in or implied by such statements. The forward-looking statements are made only as of the date of this filing, and we undertake no obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances.

Recent Accounting Pronouncements

On June 30, 2009, BioClinica adopted Statement of Financial Accounting Standards (SFAS) No. 165, Subsequent Events, (SFAS 165). SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Specifically, SFAS 165 sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. The adoption of SFAS 165 had no impact on the Financial Statements.

On January 1, 2009, BioClinica adopted SFAS No. 157, Fair Value Measurements, (SFAS 157) as it relates to nonfinancial assets and nonfinancial liabilities that are not recognized or disclosed at fair value in the financial statements on at least an annual basis. SFAS 157 defines fair value, establishes a framework for measuring fair value in accounting principles generally accepted in the United States of America (GAAP), and expands disclosures about fair value measurements. The provisions of this standard apply to other accounting pronouncements that require or permit fair value measurements and are to be applied prospectively with limited exceptions. The adoption of SFAS 157, as it relates to nonfinancial assets and nonfinancial liabilities, had no impact on the Financial Statements. The provisions of SFAS 157 will be applied at such time a fair value measurement of a nonfinancial asset or nonfinancial liability is required, which may result in a fair value that is materially different than would have been calculated prior to the adoption of SFAS 157.

On January 1, 2009, BioClinica adopted SFAS No. 141 (revised 2007), Business Combinations, (SFAS 141(R)), which replaces SFAS No. 141, Business Combinations, (SFAS 141) but retains the fundamental requirements in SFAS 141, including that the purchase method be used for all business combinations and for an acquirer to be identified for each business combination. This standard defines the acquirer as the entity that obtains control of one or more businesses in the business combination and establishes the acquisition date as the date that the acquirer achieves control instead of the date that the consideration is transferred. SFAS 141(R) requires an acquirer in a business combination, including business combinations achieved in stages (step acquisition), to recognize the assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions. It also requires the recognition of assets acquired and liabilities assumed arising from certain contractual contingencies as of the acquisition date, measured at their acquisition-date fair values. Additionally, SFAS 141(R) requires acquisition-related costs to be expensed in the period in which the costs are incurred and the services are received instead of including such costs as part of the acquisition price. The adoption of SFAS 141(R) had no impact on the Financial Statements.

On June 30, 2009, BioClinica adopted FSP No. FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments, (FSP FAS 107-1/APB 28-1). FSP FAS 107-1/APB 28-1 requires a publicly traded company to include disclosures about the fair value of its financial instruments whenever it issues summarized financial information for interim reporting periods. Such disclosures include the fair value of all financial instruments, for which it is practicable to estimate that value, whether recognized or not recognized in the statement of financial position; the related carrying amount of these financial instruments; and the method(s) and significant assumptions used to estimate the fair value. The adoption of FSP FAS 107-1/APB 28-1 had no impact on the Financial Statements.

Effective January 1, 2009, BioClinica adopted FSP No. FAS 141(R)-1, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies, (FSP FAS 141(R)-1), which was issued on April 1, 2009. FSP FAS 141(R)-1 applies to all assets acquired and liabilities assumed in a business combination that arise from certain contingencies as defined in this FSP and requires (i) an acquirer to recognize at fair value, at the acquisition date, an asset acquired or liability assumed in a business combination that arises from a contingency if the acquisition-date fair value of that asset or liability can be determined during the measurement period otherwise the asset or liability should be recognized at the acquisition date if certain defined criteria are met; (ii) contingent consideration arrangements of an acquiree assumed by the acquirer in a business combination be recognized initially at fair value; (iii) subsequent measurements of assets and liabilities arising from contingencies be based on a systematic and rational method depending on their nature and contingent consideration arrangements be measured subsequently in accordance with the provisions of SFAS 141(R); and (iv) disclosures of the amounts and measurement basis of such assets and liabilities and the nature of the contingencies. The adoption of FSP FAS 141(R)-1 had no impact on the Financial Statements.

On January 1, 2009, BioClinica adopted FSP No. FAS 142-3, Determination of the Useful Life of Intangible Assets, (FSP FAS 142-3). FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, Goodwill and Other Intangible Assets, (SFAS 142) in order to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141(R) and other GAAP. The adoption of FSP FAS 142-3 had no impact on the Financial Statements.

In June 2009, the FASB issued SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162, (SFAS 168). SFAS 168 replaces SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles, and establishes the FASB Accounting Standards Codification TM (Codification) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The FASB will no longer issue new standards in the form of Statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts; instead the FASB will issue Accounting Standards Updates. Accounting Standards Updates will not be authoritative in their own right as they will only serve to update the Codification. The issuance of SFAS 168 and the Codification does not change GAAP. SFAS 168 becomes effective for BioClinica for the period ending September 30, 2009. Management has determined that the adoption of SFAS 168 will not have an impact on the Financial Statements since it only requires changes to the presentation of disclosures.

In June 2009, the FASB issued SFAS No. 167, Amendments to FASB Interpretation No. 46(R), (SFAS 167). SFAS 167 amends FASB Interpretation No. 46 (Revised December 2003), Consolidation of Variable Interest Entities an interpretation of ARB No. 51, (FIN 46(R)) to require an enterprise to perform an analysis to determine whether the enterprise s variable interest or interests give it a controlling financial interest in a variable interest entity; to require ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity; to eliminate the quantitative approach previously required for determining the primary beneficiary of a variable interest entity; to add an additional reconsideration event for determining whether an entity is a variable interest entity when any changes in facts and circumstances occur such that holders of the equity investment at risk, as a group, lose the power from voting rights or similar rights of those investments to direct the activities of the entity that most significantly impact the entity s economic performance; and to require enhanced disclosures that will provide users of financial statements with more transparent information about an enterprise s

involvement in a variable interest entity. SFAS 167 becomes effective for BioClinica on January 1, 2010. Management is currently evaluating the potential impact of SFAS 167 on the Financial Statements.

In June 2009, the FASB issued SFAS No. 166, Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140, (SFAS 166). SFAS 166 amends various provisions of SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities a replacement of FASB Statement No. 125, by removing the concept of a qualifying special-purpose entity and removes the exception from applying FIN 46(R) to variable interest entities that are qualifying special-purpose entities; limits the circumstances in which a transferor derecognizes a portion or component of a financial asset; defines a participating interest; requires a transferor to recognize and initially measure at fair value all assets obtained and liabilities incurred as a result of a transfer accounted for as a sale; and requires enhanced disclosure; among others. SFAS 166 becomes effective for BioClinica on January 1, 2010. Management is currently evaluating the potential impact of SFAS 166 on the Financial Statements.

Results of Operations

Three Months Ended June 30, 2009 and 2008

(in thousands)	Three Months Ended June 30, 2009	% of Total Revenue	Three Months Ended June 30, 2008	% of Total Revenue	$ Change	% Change
Service revenues	$13,921	81.6%	$15,109	78.8%	$(1,188)	(7.9)%
Reimbursement revenues	3,142	18.4%	4,073	21.2%	(931)	(22.9)%
Total revenues	17,063	100.0%	19,182	100.0%	(2,119)	(11.0)%
Cost and expenses:						
Cost of service revenue	8,608	50.5%	8,595	44.8%	13	0.2%
Cost of reimbursement revenue	3,142	18.4%	4,073	21.2%	(931)	(22.9)%
Sales and marketing expenses	2,166	12.7%	2,229	11.6%	(63)	(2.8)%
General and administrative expenses	1,867	10.9%	1,900	9.9%	(33)	(1.7)%
Amortization of intangible assets related to acquisitions	112	0.7%	133	0.8%	(21)	(15.8)%
Restructuring Cost	466	2.7%			466	0.0%
Total cost and expenses	16,361	95.9%	16,930	88.3%	(569)	(3.4)%
Income from continuing operations before interest and taxes	702	4.1%	2,252	11.7%	(1,550)	(68.8)%
Interest income	10	0.1%	101	0.5%	(91)	(90.1)%
Interest expense	(3)	0.0%	(3)	0.0%		0.0%
Income tax provision	(180)	(1.1)%	(887)	(4.6)%	707	(79.7)%
Income from continuing operations, net of taxes	529	3.1%	1,463	7.6%	(934)	(63.8)%
Loss from discontinued operations, net of taxes		0.0%	(402)	(2.1)%	402	(100.0)%
Net income	$ 529	3.1%	$ 1,061	5.5%	$ (532)	(50.1)%

The Consolidated Statements of Income for all periods presented were reclassified to reflect the CapMed division in discontinued operations.

Service revenues for the three months ended June 30, 2009 and 2008 were $13.9 million and $15.1 million, respectively, a decrease of $1.2 million, or 7.9%. The decrease in our service revenues was due to the pharmaceutical

companies response to overall economic conditions, resulting in re-evaluation of drug programs and some contract decisions being delayed. We believe as worldwide demand for new drugs grow, our customers will continue to conduct more clinical trials in pursuit of regulatory approval in countries around the world and clinical trials service organizations, such as ours, with an established global presence, depth of services and expertise, will continue to benefit. No one client accounted for more than 10.0% of service revenues for the three months ended June 30, 2009 and 2008.

Reimbursement revenues and cost of reimbursement revenues for the three months ended June 30, 2009 and 2008 were $3.1 million and $4.1 million, respectively, a decrease of $1 million, or 22.2%. Reimbursement revenues and cost of reimbursement revenues consist of payments received from the customer for reimbursable costs. Reimbursement revenues and cost of reimbursement revenues fluctuate significantly over the course of any given project, and quarter to quarter variations are a reflection of this project timing. Therefore, our management believes that reimbursement revenues and cost of reimbursement revenues are not a significant indicator of our overall performance trends. At the request of our clients, we may directly pay the independent radiologists who review our client s imaging data. In such cases, per contractual arrangement, these costs are billed to our clients and are included in reimbursement revenues and cost of reimbursement revenues.

Cost of service revenues for the three months ended June 30, 2009 and 2008 remained flat year over year at $8.6 million. Cost of service revenues for the three months ended June 30, 2009 and 2008 were comprised of professional salaries and benefits and allocated overhead. The cost of revenues as a percentage of total revenues also fluctuates due to work-flow variations in the utilization of staff and the mix of services provided by us in any given period. We expect that our cost of revenues will decrease for the remainder of fiscal 2009 due to the savings from the restructuring in the second quarter of 2009.

Sales and marketing expenses for the three months ended June 30, 2009 and 2008 remained flat year over year at $2.2 million. Sales and marketing expenses for the three months ended June 30, 2009 and 2008 were comprised of direct sales and marketing costs, salaries and benefits and allocated overhead. We expect that our sales and marketing expenses will increase in fiscal 2009 as we continue to expand our market presence in the United States and Europe.

General and administrative expenses for the three months ended June 30, 2009 and 2008 remained flat year over year at $1.9 million. General and administrative expenses for the three months ended June 30, 2009 and three months ended June 30, 2008 consisted primarily of salaries and benefits, allocated overhead, professional and consulting services and corporate insurance. This decrease is primarily due to non-recurring professional fees incurred in the second quarter of 2008. In the second quarter of 2009, as a result of a potential acquisition which was terminated, we incurred $734,000 of acquisition related costs and received $750,000, comprised of a $500,000 break-up fee and $250,000 expense reimbursement, from the target company, resulting in a $16,000 gain on the transaction. We expect that our general and administrative expenses will remain relatively flat for the remainder of fiscal 2009.

Amortization of intangible assets related to acquisitions for the three months ended June 30, 2009 and 2008 were $112,000 and $133,000, respectively, a decrease of $21,000, or 15.8%. Amortization of intangible assets related to acquisitions consisted primarily of amortization of customer backlog, customer relationships, software and non-compete intangibles acquired from the acquisitions of PDS and Theralys. We expect that the amortization of intangible assets related to acquisitions may increase as we look to continue to expand our pharmaceutical contract services through potential acquisitions.

Net interest income was $7,000 for the three months ended June 30, 2009 and $98,000 for the three months ended June 30, 2008, a decrease of $91,000, or 92.9%. Net interest income and expense for the three months ended June 30, 2009 and 2008 is comprised of interest income earned on our cash balance and interest expense incurred on equipment lease obligations. The decrease was due to a decline in market interest rates for short-term cash investments; we expect this trend to continue throughout 2009.

Our income tax provision for the three months ended June 30, 2009 and 2008 was $180,000 and $887,000, respectively. Our effective tax rate from continuing operations is approximately 35% for fiscal 2009.

Six Months Ended June 30, 2009 and 2008

(in thousands)	Six Months Ended June 30, 2009	% of Total Revenue	Six Months Ended June 30, 2008	% of Total Revenue	$ Change	% Change
Service revenues	$28,396	83.2%	$26,132	78.5%	$ 2,264	8.7%
Reimbursement revenues	5,737	16.8%	7,150	21.5%	(1,413)	(19.8)%
Total revenues	34,133	100.0%	33,282	100.0%	851	2.6%
Cost and expenses:						
Cost of service revenue	17,669	51.8%	14,938	44.9%	2,731	18.3%
Cost of reimbursement revenue	5,737	16.8%	7,150	21.5%	(1,413)	(19.8)%
Sales and marketing expenses	4,322	12.7%	3,697	11.1%	625	16.9%
General and administrative expenses	3,784	11.1%	3,439	10.3%	345	10.0%
Amortization of intangible assets related to acquisitions	231	0.6%	157	0.5%	74	47.1%
Restructuring Charges	466	1.4%		0.0%	466	0.0%
Total cost and expenses	32,209	94.4%	29,381	88.3%	2,828	9.6%
Income from continuing operations before interest and taxes	1,924	5.6%	3,901	11.7%	(1,977)	(50.7)%
Interest income	32	0.1%	254	0.8%	(222)	(87.4)%
Interest expense	(5)	(0.0)%	(3)	0.0%	(2)	66.7.%
Income tax provision	(636)	(1.9)%	(1,553)	(4.7)%	917	(59.0)%
Income from continuing operations, net of taxes	1,315	3.8%	2,599	7.8%	(1,284)	(49.4)%
Loss from discontinued operations, net of taxes		0.0%	(715)	(2.1)%	715	100.0%
Net income	1,315	3.8%	$ 1,884	5.7%	$ (569)	(30.2)%

The Consolidated Statements of Income for all periods presented were reclassified to reflect the CapMed division in discontinued operations.

The Consolidated Statement of Income for the six months ended June 30, 2009 and 2008 includes the financial results of PDS since the acquisition date of March 24, 2008 (except that the period from March 24, 2008 through March 31, 2008 has been excluded due to immateriality).

Service revenues for the six months ended June 30, 2009 and 2008 were $28.4 million and $26.1 million respectively, an increase of $2.3 million, or 8.7%. The increase in our service revenues was due

to the addition of PDS service revenues in the second quarter of 2008. Our service revenues have been impacted due to the pharmaceutical companies response to overall economic conditions, resulting in re-evaluation of drug programs and some contract decisions being delayed. We believe as worldwide demand for new drugs grow, our customers will continue to conduct more clinical trials in pursuit of regulatory approval in countries around the world and clinical trials service organizations, such as ours, with an established global presence, depth of services and expertise, will continue to benefit. No one client, accounted for more than 10.0% of service revenues for the six months ended June 30, 2009 and 2008.

Reimbursement revenues and cost of reimbursement revenues for the six months ended June 30, 2009 and 2008 were $5.7 million and $7.2 million respectively, a decrease of $1.5 million, or 19.8%. Reimbursement revenues and cost of reimbursement revenues consist of payments received from the customer for reimbursable costs. Reimbursement revenues and cost of reimbursement revenues fluctuate significantly over the course of any given project, and quarter to quarter variations are a reflection of this project timing. Therefore, our management believes that reimbursement revenues and cost of reimbursement revenues are not a significant indicator of our overall performance trends. At the request of our clients, we may directly pay the independent radiologists who review our client s imaging data. In such cases, per contractual arrangement, these costs are billed to our clients and are included in reimbursement revenues and cost of reimbursement revenues.

Cost of service revenues for the six months ended June 30, 2009 and 2008 were $17.7 million and $14.9 million respectively, an increase of $2.8 million, or 18.3%. Cost of service revenues for the six months ended June 30, 2009 and 2008 were comprised of professional salaries and benefits and allocated overhead. The increase in cost of service revenues is primarily due to a full six months of PDS costs in 2009. The cost of revenues as a percentage of total revenues also fluctuates due to work-flow variations in the utilization of staff and the mix of services provided by us in any given period. We expect that our cost of revenues will decrease for the remainder of fiscal 2009 due to the savings from the restructuring in the second quarter of 2009.

Sales and marketing expenses for the six months ended June 30, 2009 and 2008 were $4.3 million and $3.7 million respectively, an increase of $625,000, or 16.9%. Sales and marketing expenses for the six months ended June 30, 2009 and 2008 were comprised of direct sales and marketing costs, salaries and benefits and allocated overhead. The increase is primarily due to the addition of sales personnel from the PDS acquisition along with increased marketing and tradeshow attendance. We expect that our sales and marketing expenses will increase in fiscal 2009 as we continue to expand our market presence in the United States and Europe.

General and administrative expenses for the six months ended June 30, 2009 and 2008 were $3.8 million and $3.4 million respectively, an increase of $345,000, or 10.0%. General and administrative expenses for the six months ended June 30, 2009 and six months ended June 30, 2008 consisted primarily of salaries and benefits, allocated overhead, professional and consulting services and corporate insurance. The decrease is primarily due to non-recurring professional fees incurred in the second quarter of 2008 offset by the full six months of PDS in 2009. In the second quarter of 2009, as a result of a potential acquisition which was terminated, we incurred $734,000 of acquisition related costs and received $750,000, comprised of a $500,000 break-up fee and $250,000 expense reimbursement, from the target company, resulting in a $16,000 gain on the transaction. We expect that our general and administrative expenses will remain relatively flat for the remainder of fiscal 2009.

Amortization of intangible assets related to acquisitions for the six months ended June 30, 2009 and 2008 were $190,000 and $157,000 respectively, an increase of $33,000, or 21.0%. Amortization of

intangible assets related to acquisitions consisted primarily of amortization of customer backlog, customer relationships, software and non-compete intangibles acquired from the acquisitions of PDS and Theralys. The increase is due to the acquisition of PDS on March 24, 2008. We expect that the amortization of intangible assets related to acquisitions may increase as we look to continue to expand our pharmaceutical contract services through potential acquisitions.

Net interest income was $27,000 for the six months ended June 30, 2009 and $251,000 for the six months ended June 30, 2008, a decrease of $224,000, or 89.2%. Net interest income and expense for the six months ended June 30, 2009 and 2008 is comprised of interest income earned on our cash balance and interest expense incurred on equipment lease obligations. The decrease was due to a decline in market interest rates for short-term cash investments; we expect this trend to continue throughout 2009.

Our income tax provision for the six months ended June 30, 2009 and 2008 was $636,000 and $1.5 million respectively. Our effective tax rate from continuing operations is approximately 35% for fiscal 2009.

Business Segments and Geographic Information

We view our operations and manage our business as one operating segment, clinical trials services.

Our corporate headquarters and operational facilities are in Pennsylvania, in the United States. We also have a European facility in Leiden, the Netherlands. We manage our services for European-based clinical trials from this facility. Our European facility has similar processing and analysis capabilities as our United States headquarters. We also have a facility in Lyon, France that provides product development and research activities.

Our foreign customers accounted for approximately 22% and 25% of service revenues for the three months ended June 30, 2009 and 2008, respectively.

Liquidity and Capital Resources

Our principal liquidity requirements have been, and we expect will be, for working capital and general corporate purposes, including capital expenditures.

Statement of Cash Flow for the six months ended June 30, 2009 compared to June 30, 2008

(in thousands)	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Net cash provided by activities from continuing operations	$ 1,448	$ 7,588
Net cash used in investing activities from continuing operations	$ (1,067)	$ (9,958)
Net cash provided by financing activities from continuing operations	$ (30)	$ 291

At June 30, 2009, we had cash and cash equivalents of $14.6 million. Working capital, defined as current assets minus current liabilities, at June 30, 2009 was $9.6 million.

Net cash provided by continuing operating activities for the six months ended June 30, 2009 was $1.4 million as compared to $7.6 million for the six months ended June 30, 2008. This decrease from the prior year is primarily due to the decrease in deferred revenue of $2.6 million and the decrease in accrued accounts payable of $1.7 million.

Cash used in discontinued operations for the six months ended June 30, 2009 was $0 compared to $758 for the three months ended June 30, 2008.

Net cash used in investing activities from continuing operations for the six months ended June 30, 2009 was $1.1 million as compared to $10.0 million for the six months ended June 30, 2008. The cash usage in 2008 was primarily due to the acquisition of PDS on March 24, 2008. We currently anticipate that capital expenditures for the remainder of the fiscal year ending December 31, 2009 will be approximately $1 million. These expenditures primarily represent additional upgrades in our networking, data storage and core laboratory capabilities for both our U. S. and European operations, as well as capitalization of software costs.

Net cash used in by financing activities from continuing operations for the six months ended June 30, 2009 was $30,000 as compared to net cash provided by financing activities of $291,000 for the six months ended June 30, 2008. The change is primarily attributable to fewer proceeds related to the exercise of stock options.

The following table lists our cash contractual obligations as of June 30, 2009:

(in thousands) Contractual obligations	Total	Payments Due By Period Less than 1 year	1-3 years	3-5 years	More than 5 years
Capital lease obligations	$ 86	$ 75	$ 11	$	$
Facility rent operating leases	$15,738	$2,230	$3,671	$3,362	$6,475
Employment agreements	$ 1,209	$ 500	$ 709	$	$
Total contractual cash obligations	$17,033	$2,805	$4,391	$3,362	$6,475

We have neither paid nor declared dividends on our common stock since our inception and do not plan to pay dividends on our common stock in the foreseeable future.

We have not entered into any off-balance sheet transactions, arrangements or other relationships with unconsolidated entities or other persons that are likely to affect liquidity or the availability of or requirements for capital resources.

We anticipate that our existing capital resources together with cash flow from operations will be sufficient to meet our cash needs for the next 12 months. However, we cannot assure you that our operating results will maintain profitability on an annual basis in the future. The inherent operational risks associated with the following factors may have a material adverse affect on our future liquidity:

- our ability to gain new client contracts;
- project cancellations;
- the variability of the timing of payments on existing client contracts; and
- other changes in our operating assets and liabilities.

We may seek to use a portion of our current cash on hand, or seek to raise additional capital from equity or debt sources, in order to take advantage of unanticipated opportunities, such as more rapid expansion, acquisitions of complementary businesses or the development of new services. We cannot assure you that additional financing will be available, if at all, on terms acceptable to us.

Our fiscal year 2009 operating plan contains assumptions regarding revenue and expenses. The achievement of our operating plan depends heavily on the timing of work performed by us on existing projects and our ability to gain and perform work on new projects. Project cancellations, delays in the timing of work performed by us on existing projects or our inability to gain and perform work on new projects could have an adverse impact on our ability to execute our operating plan and maintain adequate cash flow. In the event actual results do not meet the operating plan, our management believes it could execute contingency plans to mitigate these effects. Our plans include additional financing, to the extent available. Considering the cash on hand and based on the achievement of the operating plan and management s actions taken to date, management believes it has the ability to continue to generate sufficient cash to satisfy our operating requirements in the normal course of business for at least the next 12 months and the foreseeable future.

Changes to Critical Accounting Policies and Estimates

Our critical accounting policies and estimates are set forth in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008. As of June 30, 2009, there have been no changes to such critical accounting policies and estimates.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Interest Rate Risk

We invest in high-quality financial instruments, comprised of savings accounts, certificates of deposit and money market funds. Due to the short-term nature of our investments, we do not believe that we have any material exposure to interest rate risk arising from our investments.

Foreign Currency Risk

Our financial statements are denominated in U.S. dollars. Fluctuations in foreign currency exchange rates could materially increase the operating costs of our facilities in the Netherlands and France, which are Euro denominated. A 10 percent increase or decrease in the Euro to U.S. dollar spot exchange rate would result in a change of $256,000 to our net asset position at June 30, 2009. In addition, certain of our contracts are denominated in foreign currency. We believe that any adverse fluctuation in the foreign currency markets relating to these contracts will not result in any material adverse effect on our financial condition or results of operations. In the event we derive a greater portion of our service revenues from international operations, factors associated with international operations, including changes in foreign currency exchange rates, could affect our results of operations and financial condition.

We hedge our foreign currency exposure when and as appropriate to mitigate the adverse impact of fluctuating exchange rates. Our foreign currency financial assets and liabilities primarily consist of cash, trade receivables, prepaid expenses, fixed assets, trade payables and accrued expenses. We were in a net asset position at June 30, 2009. An increase in the exchange rate would result in less net assets when converted to U.S. dollars. Conversely, if we were in a net liability position, a decrease in the exchange rate would result in more net liabilities when converted to U.S. dollars.

In accordance with our foreign exchange rate risk management policy, we had purchased monthly Euro call options in prior years. These options were intended to hedge against the exposure to variability in our cash flows resulting from the Euro denominated costs for our Netherlands subsidiary. During the six months ended June 30, 2009 and 2008, we have not purchased any Euro call options, because our foreign currency needs are generally being met by the cash flow generated by Euro denominated contracts. The last Euro call option expired March 31, 2007, and we have not entered into any new Euro call options since that time. As of June 30, 2009, there were no outstanding derivative positions.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures. We evaluated, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934 (Exchange Act), as amended) as of June 30, 2009, the end of the period covered by this report on Form 10-Q. Based on this evaluation, our President and Chief Executive Officer (principal executive officer) and our Chief Financial Officer (principal accounting and financial officer) have concluded that our disclosure controls and procedures were effective at June 30, 2009. Disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act (i) is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and were operating in an effective manner for the period covered by this report, and (ii) is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

Changes in internal control over financial reporting. There was no change in our internal controls over financial reporting that occurred during the quarter ended June 30, 2009 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

PART II. OTHER INFORMATION.

Item 1. Legal Proceedings.

In the normal course of business, we may be a party to legal proceedings. We are not currently a party to any material legal proceedings.

Item 1A. Risk Factors.

The more prominent risks and uncertainties inherent in our business are described below. However, additional risks and uncertainties may also impair our business operations. If any of the following risks actually occur, our business, financial condition or results of operations may suffer. Investing in our common stock involves a high degree of risk. Any of the following factors could harm our business and future results of operations, and you could lose all or part of your investment.

Risks Related to Our Company and Business

We may incur financial losses because contracts may be delayed or terminated or reduced in scope for reasons beyond our control.

Our clients may terminate or delay their contracts for a variety of reasons, including, but not limited to:

unexpected or undesired clinical results;

the client s decision to terminate the development of a particular product or to end a particular study;

insufficient patient enrollment in a study;

insufficient investigator recruitment;

failure to perform our obligations under the contract; or

the failure of products to satisfy safety requirements.

In addition, we believe that FDA-regulated companies may proceed with fewer clinical trials or conduct them without assistance of contract service organizations if they are trying to reduce costs as a result of cost containment pressures associated with healthcare reform, budgetary limits or changing priorities. These factors may cause such companies to cancel contracts with contract service organizations.

We cannot assure you that our clients will continue to use our services or that we will be able to replace, in a timely or effective manner, departing clients with new clients that generate comparable revenues. Further, we cannot assure you that our clients will continue to generate consistent amounts of revenues over time.

The loss, reduction in scope or delay of a large contract or the loss or delay of multiple contracts could materially adversely affect our business, although our contracts entitle us to receive all fees earned up to the time of termination.

The current economic downturn may adversely impact our ability to raise capital.
The recent economic downturn and adverse conditions in the national and global markets may negatively affect our operations in the future. The falling equity markets and adverse credit markets may make it difficult for us to raise capital or procure credit in the future to fund the growth of our business, which could have a negative impact on our business and results of operations and limit our ability to pursue acquisitions

We depend on a small number of industries and clients for all of our business, and the loss of one such significant client could cause revenues to drop quickly and unexpectedly.

We depend on research and development expenditures by pharmaceutical, biotechnology and medical device companies to sustain our business. Our operations could be materially and adversely affected if:

- our clients businesses experience financial problems or are affected by a general economic downturn;
- consolidation in the pharmaceutical, biotechnology or medical device industries leads to a smaller client base for us; or
- clients reduce their research and development expenditures.

No client represented 10.0% or more of our service revenue for the six months ended June 30, 2009 and 2008. The loss of business from a significant client or our failure to continue to obtain new business to replace completed or cancelled projects would have a material adverse effect on our business and revenues.

Our contracted/committed backlog may not be indicative of future results.

Our reported contracted/committed backlog of $94.1 million at June 30, 2009 is based on anticipated service revenue from uncompleted projects with clients. Backlog is the expected service revenue that remains to be earned and recognized on signed and verbally agreed to contracts. Contracts included in backlog are subject to termination by our clients at any time. In the event that a client cancels a contract, we would be entitled to receive payment for all services performed up to the cancellation date and subsequent client authorized services related to the cancellation of the project. The duration of the projects included in our backlog range from less than three months to seven years. We cannot assure that this backlog will be indicative of future results. A number of factors may affect backlog, including:

- the variable size and duration of the projects (some are performed over several years);
- the loss or delay of projects;
- the change in the scope of work during the course of a project; and
- the cancellation of such contracts by our clients.

Also, if clients delay projects, the projects will remain in backlog, but will not generate revenue at the rate originally expected. Accordingly, the historical relationship of backlog to revenues may not be indicative of future results.

We acquired Phoenix Data Systems, Inc. in March 2008 and may engage in future acquisitions, which may be expensive and time consuming, and from which we may not realize anticipated benefits.

We acquired Phoenix Data Systems, Inc. (PDS) in March 2008 and may acquire additional businesses, technologies and products if we determine that these additional businesses, technologies and products complement our existing business, or otherwise serve our strategic goals. Either as a result of the

acquisition of PDS or future acquisitions undertaken, the process of integrating the acquired business, technology or product may result in operating difficulties and expenditures, and may absorb significant management attention that would otherwise be available for ongoing development of our business. Moreover, we may never realize the anticipated benefits of any such acquisition. Such acquisitions could result in potentially dilutive issuances of our securities, the incurrence of debt and contingent liabilities and amortization expenses related to intangible assets, all of which could adversely affect our results of operations and financial condition.

Loss of key personnel, or failure to attract and retain additional personnel, may cause the success and growth of our business to suffer.

Future success depends on the personal efforts and abilities of the principal members of our senior management to provide strategic direction, develop business, manage operations and maintain a cohesive and stable environment. Specifically, we are dependent upon Mark L. Weinstein, President and Chief Executive Officer, Ted I. Kaminer, Executive Vice President of Finance and Administration and Chief Financial Officer, David A. Pitler, Executive Vice President, President BioImaging Services, and Peter Benton, Executive Vice President, President eClinical. Although we have employment agreements with Mr. Weinstein, Mr. Kaminer and Mr. Benton, this does not necessarily mean that they will remain with us. Although we have executive retention agreements with our officers, we do not have employment agreements with any other key personnel. Furthermore, our performance also depends on our ability to attract and retain management and qualified professional and technical operating staff. Competition for these skilled personnel is intense. The loss of services of any key executive, or inability to continue to attract and retain qualified staff, could have a material adverse effect on our business, results of operations and financial condition. We do not maintain any key employee insurance on any of our executives.

Our revenues, earnings and operating costs are exposed to exchange rate fluctuations.

During the second quarter of 2009, a portion of our service revenues were denominated in foreign currency. Our financial statements are denominated in United States dollars. In the event a greater portion of our service revenues are denominated in a foreign currency, changes in foreign currency exchange rates could affect our results of operations and financial condition. Fluctuations in foreign currency exchange rates could materially impact the operating costs of our European facility in Leiden, the Netherlands, which are primarily Euro denominated. We hedge our foreign currency exposure when and as appropriate to mitigate the adverse impact of fluctuating exchange rates.

Our investments may be exposed to credit risk.

Financial instruments that potentially subject us to significant credit risk consist principally of cash. As part of our risk management processes, we continuously evaluate the relative credit standing of all of the financial institutions that service us and monitor actual exposures versus established limits. We have not sustained credit losses from instruments held at financial institutions. We maintain cash and cash equivalents, comprised of savings accounts, short-term certificate of deposits and money market funds with various financial institutions. These financial institutions are generally highly rated and the company has a policy to limit the dollar amount of credit exposure with any one institution.

We may be required to record additional significant charges to earnings if our goodwill becomes impaired.

Under accounting principles generally accepted in the United States, we review our goodwill for impairment each year as of December 31 and when events or changes in circumstances indicate the

carrying value may not be recoverable. The carrying value of our goodwill may not be recoverable due to factors such as a decline in stock price and market capitalization, reduced estimates of future cash flows and slower growth rates in our industry. Estimates of future cash flows are based on an updated long-term financial outlook of our operations. However, actual performance in the near-term or long-term could be materially different from these forecasts, which could impact future estimates. For example, a significant decline in our stock price and/or market capitalization may result in impairment of our goodwill valuation. We may be required to record a charge to earnings in our financial statements during a period in which an impairment of our goodwill is determined to exist, which may negatively impact our results of operations.

Risks Related to Our Industry

Our failure to compete effectively in our industry could cause our revenues to decline.

Significant factors in determining whether we will be able to compete successfully include:

- consultative and clinical trials design capabilities;
- reputation for on-time quality performance;
- expertise and experience in specific therapeutic areas;
- the scope of service offerings;
- strength in various geographic markets;
- the price of services;
- ability to acquire, process, analyze and report data in a time-saving and accurate manner;
- ability to manage large-scale clinical trials both domestically and internationally;
- our size; and
- the service and product offerings of our competitors.

If our services are not competitive based on these or other factors, our business, financial condition and results of operations could be materially harmed.

The biopharmaceutical services industry is highly competitive, and we face numerous competitors in our business, including hundreds of contract research organizations. If we fail to compete effectively, we will lose clients, which would cause our business to suffer. We, or CROs, primarily compete against in-house departments of pharmaceutical companies, full service CROs, small specialty CROs, and to a lesser extent, universities and teaching hospitals. Some of these competitors have substantially greater capital, technical and other resources than we do. In addition, certain of our competitors that are smaller specialized companies may compete effectively against us because of their concentrated size and focus.

Changes in outsourcing trends in the pharmaceutical and biotechnology industries could adversely affect our operating results and growth rate.

Service revenues depend greatly on the expenditures made by the pharmaceutical and biotechnology industries in research and development. Accordingly, economic factors and industry trends that affect our clients in these industries also affect our business. For example, the practice of many companies in these industries has been to hire outside organizations like us to conduct clinical research projects. This practice has grown significantly in the last decade, and we have benefited from this trend. However, if this trend were to change and companies in these industries were to reduce the number of research and development projects they outsource, our business could be materially adversely affected.

Additionally, numerous governments have undertaken efforts to control growing healthcare costs through legislation, regulation and voluntary agreements with medical care providers and pharmaceutical companies. If future regulatory cost containment efforts limit the profits that can be derived from new drug sales, our clients might reduce their research and development spending, which could reduce our business.

Consolidation among our customers could cause us to lose customers, decrease the market for our products and result in a reduction of our revenues.

Our customer base could decline because of industry consolidation, and we may not be able to expand sales of our products and services to new customers. Consolidation in the pharmaceutical, biotechnology and medical device industries has accelerated in recent years, and we expect this trend to continue. As these industries consolidate, competition to provide products and services to industry participants will become more intense and the importance of establishing relationships with large industry participants will become greater. These industry participants may try to use their market power to negotiate price reductions for our products and services. Also, if consolidation of larger current customers occurs, the combined organization may represent a larger percentage of business for us and, as a result, we are likely to rely more significantly on the combined organization s revenues to continue to achieve growth.

The current economic downturn coupled with the current regulatory environment could have a negative impact on the pharmaceutical, biotechnology and medical device industries.

The recent economic downturn and adverse conditions in the national and global markets may negatively affect our operations in the future. Our revenues are contingent upon the research and development expenditures by pharmaceutical, biotechnology and medical device companies. Some companies in these industries have found it difficult to raise capital in the equity and debt markets or through traditional credit markets to fund research and development. In addition, increased regulatory scrutiny from the FDA may have increased the costs of research and development for these companies. These companies have responded to the general economic downturn and regulatory environment, by postponing, attenuating or cancelling clinical trials projects, or portions thereof, which may reduce the need for our services. As a result, our revenues may be similarly decreased. Furthermore, while our revenues may decrease, our costs may remain relatively fixed, resulting in decreased earnings.

Failure to comply with existing regulations could result in increased costs to complete clinical trials.

Our business is subject to numerous governmental regulations, primarily relating to pharmaceutical product development and the conduct of clinical trials. In particular, we are subject to 21 CFR Part 11 of the Code of Federal Regulations that provides the criteria for acceptance by the FDA of electronic records. If we fail to comply with these governmental regulations, it could result in the termination of ongoing clinical research or the disqualification of data for submission to regulatory authorities. We also could be barred from providing clinical trial services in the future or be subjected to fines. Any of these consequences would harm our reputation, our prospects for future work and our operating results.

Changes in governmental regulation could decrease the need for the services we provide, which would negatively affect our future business opportunities.

In recent years, the United States Congress and state legislatures have considered various types of healthcare reform in order to control growing healthcare costs. The United States Congress and state legislatures may again address healthcare reform in the future. We are unable to predict what legislative

proposals will be adopted in the future, if any. Similar reform movements have occurred in Europe and Asia.

Implementation of healthcare reform legislation that results in additional costs could limit the profits that can be made by clients from the development of new products. This could adversely affect our clients research and development expenditures, which could, in turn, decrease the business opportunities available to us both in the United States and abroad. In addition, new laws or regulations may create a risk of liability, increase costs or limit service offerings. We cannot predict the likelihood of any of these events.

In addition to healthcare reform proposals, the expansion of managed care organizations in the healthcare market may result in reduced spending on research and development. Managed care organizations efforts to cut costs by limiting expenditures on pharmaceuticals and medical devices could result in pharmaceutical, biotechnology and medical device companies spending less on research and development. If this were to occur, we would have fewer business opportunities and our revenues could decrease, possibly materially.

Governmental agencies throughout the world, but particularly in the United States, strictly regulate the drug development/approval process. Our business involves helping pharmaceutical and biotechnology companies navigate the regulatory drug approval process. Changes in regulation, such as relaxation in regulatory requirements or the introduction of simplified drug approval procedures or an increase in regulatory requirements that we may have difficulty satisfying could eliminate or substantially reduce the need for our services. If these changes in regulations were to occur, our business, results of operations and financial condition could be materially adversely affected. These and other changes in regulation could have a material adverse impact on our available business opportunities.

If governmental agencies do not accept the data and analyses generated by our services, the need for our services would be eliminated or substantially reduced.

The success of our business is dependent upon continued acceptance by the FDA and other regulatory authorities of the data and analyses generated by our services in connection with the evaluation of the safety and efficacy of new drugs and devices. The FDA has formal guidelines that encourage the use of surrogate measures through submission of digital image data, for evaluation of drugs to treat life-threatening or debilitating conditions. We cannot assure you that the FDA or other regulatory authorities will accept the data or analyses generated by us in the future and, even assuming acceptance, the FDA or other regulatory authorities may not require the application of imaging techniques to the number of patients and over time periods substantially similar to those required of traditional safety and efficacy techniques. If the governmental agencies do not accept data and analyses generated by our services in connection with the evaluation of new drugs and devices, the need for our services would be eliminated or substantially reduced, and, as a result, our business, results of operations and financial condition could be materially adversely affected.

We may be exposed to liability claims as a result of our involvement in clinical trials.

We may be exposed to liability claims as a result of our involvement in clinical trials. We cannot assure you that liability claims will not be asserted against us as a result of work performed for our clients. We maintain liability insurance coverage in amounts that we believe are sufficient for the pharmaceutical services industry. Furthermore, we cannot assure you that our clients will agree to indemnify us, or that we will have sufficient insurance to satisfy any such liability claims. If a claim is brought against us and the outcome is unfavorable to us, such outcome could have a material adverse impact on us.

Risks Related to Our Common Stock

Your percentage ownership and voting power and the price of our common stock may decrease as a result of events that increase the number of our outstanding shares.

As of June 30, 2009, we had the following capital structure (in thousands):

Common stock outstanding	14,357
Common stock issuable upon:	
Exercise of options which are outstanding	1,948
Exercise of options which have not been granted	768
Restricted stock units outstanding	113
Total common stock outstanding assuming exercise or conversion of all of the above	17,186

As of June 30, 2009, we had outstanding options to purchase 1,948,773 million shares of common stock at exercise prices ranging from $0.63 to $8.06 per share (exercisable at a weighted average of $4.23 per share), of which 1,244,196 million options were then exercisable. Exercise of our outstanding options into shares of our common stock may significantly and negatively affect the market price for our common stock as well as decrease your percentage ownership and voting power. In addition, we may conduct future offerings of our common stock or other securities with rights to convert the securities into shares of our common stock. As a result of these and other events, such as future acquisitions, that increase the number of our outstanding shares, your percentage ownership and voting power and the price of our common stock may decrease.

Shares of our common stock eligible for public sale may have a negative impact on its market price.

Future sales of shares of our common stock by existing holders of our common stock or by holders of outstanding options, upon the exercise thereof, could have a negative impact on the market price of our common stock. As of June 30, 2009, we had 14,357,253 million shares of our common stock issued and outstanding, substantially all of which are currently freely tradable.

We are unable to estimate the number of shares that may be sold because this will depend on the market price for our common stock, the personal circumstances of the sellers and other factors. Any sale of substantial amounts of our common stock or other securities in the open market may adversely affect the market price of our securities and may adversely affect our ability to obtain future financing in the capital markets as well as create a potential market overhang.

There are a limited number of stockholders who have significant control over our common stock, allowing them to have significant influence over the outcome of all matters submitted to our stockholders for approval, which may conflict with our interests and the interests of our other stockholders.

Our directors, officers and principal stockholders (stockholders owning 10% or more of our common stock), including Covance Inc., beneficially owned 24% of the outstanding shares of common stock and stock options that could have been converted to common stock at June 30, 2009, and such

stockholders will have significant influence over the outcome of all matters submitted to our stockholders for approval, including the election of our directors and other corporate actions. In addition, such influence by these affiliates could have the effect of discouraging others from attempting to take us over, thereby increasing the likelihood that the market price of the common stock will not reflect a premium for control.

Because we do not intend to pay dividends, stockholders will benefit from an investment in our common stock only if it appreciates in value.

We have never declared or paid any cash dividends on our common stock. We currently intend to retain our future earnings, if any, to finance further research and development and do not expect to pay any cash dividends in the foreseeable future. As a result, the success of an investment in our common stock will depend upon any future appreciation in its value. There is no guarantee that our common stock will appreciate in value or even maintain the price at which stockholders have purchased their shares.

Trading in our common stock may be volatile, which may result in substantial declines in its market price.

The market price of our common stock has experienced historical volatility and might continue to experience volatility in the future in response to quarter-to-quarter variations in:

- operating results;
- analysts reports;
- market conditions in the industry;
- changes in governmental regulations; and
- changes in general conditions in the economy or the financial markets.

The overall market (including the market for our common stock) has also experienced significant decreases in value in the past. This volatility and potential market decline could affect the market prices of securities issued by many companies, often for reasons unrelated to their operating performance, and may adversely affect the price of our common stock. Between January 1, 2009 and June 30, 2009, our common stock has traded at a low of $2.75 per share and a high of $4.27 per share.

Our common stock began trading on the NASDAQ Global Market, formerly called the NASDAQ National Market, on December 18, 2003 and has a limited trading market. We cannot assure that an active trading market will develop or, if developed, will be maintained. As a result, our stockholders may find it difficult to dispose of shares of our common stock and, as a result, may suffer a loss of all or a substantial portion of their investment.

Certain provisions of our charter and Delaware law could make a takeover difficult and may prevent or frustrate attempts by our stockholders to replace or remove our management team.

We have an authorized class of 3,000,000 shares of undesignated preferred stock, of which 1,250,000 shares were previously issued and converted to common stock. The remaining 1,750,000 shares may be issued by our board of directors, on such terms and with such rights, preferences and designation as the board of directors may determine. Issuance of such preferred stock, depending upon the rights, preferences and designations thereof, may have the effect of delaying, deterring or preventing a change in control of our company. In addition, we are subject to provisions of Delaware corporate law which, subject to certain exceptions, will prohibit us from engaging in any business combination with a person who, together with affiliates and associates, owns 15% or more of our common stock for a period

of three years following the date that the person came to own 15% or more of our common stock, unless the business combination is approved in a prescribed manner. In July 2009, our board of directors also adopted a stockholder rights plan, similar to plans adopted by many other publicly-traded companies. The stockholder rights plan is intended to protect stockholders against unsolicited attempts to acquire control of us that do not offer a fair price to our stockholders as determined by our board of directors.

These provisions of our certificate of incorporation, stockholder rights plan and of Delaware law, may have the effect of delaying, deterring or preventing a change in control of our company, may discourage bids for our common stock at a premium over market price and may adversely affect the market price, and the voting and other rights of the holders, of our common stock. In addition, these provisions make it more difficult to replace or remove our current management team in the event our stockholders believe this would be in the best interest of our company and our stockholders.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Submission of Matters to a Vote of Security Holders.

(a) Our annual meeting of stockholders was held on July 8, 2009.

(b) The following is a list of all of the nominees for Director of our company who were elected at the annual meeting and whose term of office continued after the meeting;

(i) Mark L. Weinstein

(ii) Jeffrey H. Berg, Ph.D.

(iii) Richard F. Cimino

(iv) E. Martin Davidoff, CPA, Esq.

(v) David E. Nowicki, D.M.D.

(vi) Adeoye Y. Olukotun, M.D., M.P.H., F.A.C.C., FAHA

(vii) David M. Stack

(viii) James A. Taylor, Ph.D.

(c) There were present at the annual meeting, in person or by proxy, not less than 12,610,033 shares of Common Stock, out of a total number of 14,357,253 shares of Common Stock issued and outstanding and entitled to vote at the annual meeting.

(d) The results of the vote of the stockholders taken at the annual meeting by ballot and by proxy as solicited by us on behalf of the board of directors were as follows:

(i) A vote was taken for the election of the nominees for our board of directors:

Nominee	For	Withheld
Mark L. Weinstein	12,113,725	496,308
Jeffrey H. Berg, Ph.D.	12,369,201	240,832
Richard F. Cimino	12,369,873	240,160
E. Martin Davidoff, CPA, Esq.	12,025,810	584,223
David E. Nowicki, D.M.D.	12,358,210	251,823
Adeoye, Y. Olukotun, M.D., M.P.H., F.A.C.C., FAHS	12,369,875	240,158
David M. Stack	12,019,544	590,489
James A. Taylor, Ph.D.	12,357,435	252,598

(ii) A vote was taken to amend the Company s Certificate of Incorporation, as amended, to change the Company s name from Bio-Imaging Technologies, Inc. to BioClinica, Inc.:

For	Against	Abstain
12,143,064	408,473	58,496

(iii) A vote was taken to amend the Company s Certificate of Incorporation, as amended, to increase the authorized shares of the Company s common stock from 18,000,000 to 36,000,000 shares:

For	Against	Abstain
11,043,924	1,563,806	2,303

(iv) A vote was taken on the proposal to ratify the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2009:

For	Against	Abstain
12,549,176	21,861	250,370

Item 5. Other Information.

None.

Item 6. Exhibits.

10.1 Employment Agreement, dated September 19, 2008, by and between Bio-Imaging Technologies, Inc. and Peter Benton.

31.1 Certification of principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).

31.2 Certification of principal financial and accounting officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).

32.1 Certification of principal executive officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. 1350 (furnished herewith).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	BIOCLINICA, INC.
DATE: August 6, 2009	By: /s/ Mark L. Weinstein
	Mark L. Weinstein, President and Chief Executive Officer (Principal Executive Officer)
DATE: August 6, 2009	By: /s/ Ted I. Kaminer
	Ted I. Kaminer, Executive Vice President of Finance and Administration and Chief Financial Officer (Principal Financial and Accounting Officer)