ERESEARCHTECHNOLOGY INC /DE/
Form 10-Q
August 07, 2003

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

[X] Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. For the quarterly period ended June 30, 2003.

or

[ ] Transitional report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transitional period from __________________to__________________

Commission file number 0-29100

eResearchTechnology, Inc.
(Exact name of registrant as specified in its charter)

Delaware	22-3264604
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
30 South 17th Street Philadelphia, PA	19103
(Address of principal executive offices)	(Zip Code)

215-972-0420
(Registrant's telephone number, including area code)

(Former name, former address and formal fiscal year, if changed since last report)

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.
X Yes No

---------- ---------

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).

X Yes No

---------- ---------

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

The number of shares of Common Stock, $.01 par value, outstanding as of July 30, 2003, was 21,993,343.

eResearchTechnology, Inc. and Subsidiaries

INDEX

Part I. Financial Information

Item 1. Consolidated Financial Statements

Consolidated Balance Sheets--December 31, 2002 and June 30, 2003 (unau

Consolidated Statements of Operations (unaudited)--Three and Six Months Ended June 30, 2002 and 2003

Consolidated Statements of Cash Flows (unaudited)--Six Months Ended June 30, 2002 and 2003

Notes to Consolidated Financial Statements (unaudited)

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

Item 3. Qualitative and Quantitative Disclosures about Market Risk

Item 4. Controls and Procedures

Part II. Other Information

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

Item 6. Exhibits and Reports on Form 8-K

a.) Exhibits

b.) Reports on Form 8-K

Signatures

Exhibit Index

Part 1. Financial Information
Item 1. Consolidated Financial Statements

eResearchTechnology, Inc. and Subsidiaries
Consolidated Balance Sheets
(in thousands, except share and per share amounts)

	December 31, 2002	June 3
		(unaud
Assets		
Current assets:		
Cash and cash equivalents	$ 17,443	$
Short-term investments	9,307	
Accounts receivable, net	6,954	
Prepaid expenses and other	2,542	
Deferred income taxes	485	
Total current assets	36,731	
Property and equipment, net	12,587	
Goodwill	1,212	
Investments in non-marketable securities	509	
Other assets	21	
Deferred income taxes	2,332	
	$ 53,392	$
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 2,000	$
Accrued expenses	3,705	
Income taxes payable	960	
Current portion of capital lease obligations	599	
Deferred revenues	4,774	
Total current liabilities	12,038	
Capital lease obligations, excluding current portion	774	
Commitments and contingencies		
Stockholders' equity:		
Preferred stock - $10.00 par value, 500,000 shares authorized, none issued and outstanding	-	
Common stock - $.01 par value, 50,000,000 shares authorized,		

22,924,382 and 23,770,070 shares issued, respectively	229	
Additional paid-in capital	40,807	
Accumulated other comprehensive income	410	
Retained earnings	2,363	
Treasury stock, 1,791,000 and 1,805,564 shares at cost	(3,229)	
Total stockholders' equity	40,580	
	$ 53,392	$

The accompanying notes are an integral part of these statements.

3

eResearchTechnology, Inc. and Subsidiaries
Consolidated Statements of Operations
(in thousands, except per share amounts)
(unaudited)

	Three Months Ended June 30,		Six M
	2002	2003	2002
Net revenues:			
Licenses	$ 496	$ 1,154	$ 1,
Services	9,608	13,622	17,
Total net revenues	10,104	14,776	18,
Costs of revenues:			
Cost of licenses	152	188	
Cost of services	4,006	5,630	7,
Total costs of revenues	4,158	5,818	7,
Gross margin	5,946	8,958	10,
Operating expenses:			
Selling and marketing	1,922	1,924	3,
General and administrative	1,398	1,569	2,
Research and development	1,092	1,140	2,
Total operating expenses	4,412	4,633	8,
Operating income	1,534	4,325	2,
Other income, net	186	88	
Gain on sale of domestic CRO operation	-	-	
Income before income taxes	1,720	4,413	2,
Income tax provision	550	1,644	

Net income	$ 1,170	$ 2,769	$ 1,
Basic net income per share	$ 0.06	$ 0.13	$ 0
Diluted net income per share	$ 0.05	$ 0.12	$ 0
Shares used to calculate basic net income per share	20,918	21,868	20,
Shares used to calculate diluted net income per share	22,458	23,852	22,

The accompanying notes are an integral part of these statements.

eResearchTechnology, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

	Six Months Ended	
	2002	
Operating activities:		
Net income	$ 1,879	$
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sale of domestic CRO operation	(35)	
Gain on sale of marketable securities	(75)	
Depreciation and amortization	1,163	
Issuance of stock options to non-employees	7	
Stock option income tax benefits	-	
Changes in operating assets and liabilities:		
Accounts receivable	(1,124)	
Prepaid expenses and other	(832)	
Accounts payable	321	
Accrued expenses	284	
Income taxes	769	
Deferred revenues	336	
Net cash provided by operating activities	2,693	
Investing activities:		
Purchases of property and equipment	(2,904)	
Purchase of short-term investments	(988)	
Proceeds from sales of short-term investments	810	
Net proceeds from sale of the domestic CRO operation	35	
Proceeds from sales of marketable securities	720	

Net cash used in investing activities	(2,327)	
Financing activities:		
Repayments of capital lease obligations	(178)	
Proceeds from exercise of stock options	844	
Net cash provided by financing activities	666	
Effect of exchange rate changes on cash	-	
Net increase in cash and cash equivalents	1,032	
Cash and cash equivalents, beginning of period	11,364	
Cash and cash equivalents, end of period	$ 12,396	$

The accompanying notes are an integral part of these statements.

eResearchTechnology, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(unaudited)

Note 1. Basis of Presentation

The accompanying unaudited consolidated financial statements, which include the accounts of eResearchTechnology, Inc. (the "Company") and its wholly owned subsidiaries, have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the six month period ended June 30, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003. Further information on potential factors that could affect the Company's financial results can be found in the Company's Reports on Forms 10-K and 10-Q filed with the Securities and Exchange Commission and in this Form 10-Q.

Note 2. Summary of Significant Accounting Policies

Principles of Consolidation. The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Reclassifications. The consolidated financial statements for prior periods have been reclassified to conform to the current period's presentation.

Management's Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Property and Equipment. Pursuant to Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," the

Company capitalizes costs associated with internally developed and/or purchased software systems for new products and enhancements to existing products that have reached the application development stage and meet recoverability tests. These costs are included in property and equipment. Capitalized costs include external direct costs of materials and services utilized in developing or obtaining internal-use software, and payroll and payroll-related expenses for employees who are directly associated with and devote time to the internal-use software project.

Amortization of capitalized software development costs is charged to cost of revenues. Amortization of capitalized software development costs was $0 and $318,000 for the three months ended June 30, 2002 and 2003, respectively, and $0 and $570,000 for the six months ended June 30, 2002 and 2003, respectively. For the six months ended June 30, 2002 and 2003, the Company capitalized $1,343,000 and $436,000, respectively, of software development costs. All research and development costs have been expensed as incurred.

In accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No, 142, "Goodwill and Other Intangible Assets," and SFAS No. 144, "Accounting for the Impairment and Disposal of Long-Lived Assets," when events or circumstances so indicate, the Company assesses the potential impairment of its intangible assets and other long-lived assets based on anticipated undiscounted cash flows from the assets. Such events and circumstances include a sale of all or a significant part of the operations associated with the long-lived asset, or a significant decline in the operating performance of the asset. If an impairment is indicated, the amount of the impairment charge would be calculated by comparing the anticipated discounted future cash flows to the carrying value of the long-lived asset. At June 30, 2003, no impairment was indicated.

6

Stock-Based Compensation. In December 2002, SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure," was issued. SFAS No. 148 amended SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 related to the disclosures about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The disclosure provisions of SFAS No. 148 are applicable to interim or annual periods that end after December 15, 2002, and as such have been incorporated below.

SFAS No. 123, as amended by SFAS No. 148, permits companies to (i) recognize as expense the fair value of stock-based awards, or (ii) continue to apply the provisions of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations, and provide pro forma net income and earnings per share disclosures for employee stock option grants as if the fair value based method defined in SFAS No. 123 had been applied. The Company continues to apply the provisions of APB Opinion No. 25 and provide the pro forma disclosures in accordance with the provisions of SFAS Nos. 123 and 148. Under APB Opinion No. 25, the Company has not recorded any stock-based employee compensation cost associated with the Company's stock option plans, as all options granted under the plans had an exercise price equal to the market value of the underlying common stock on the date of grant.

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to its stock option plans (in thousands, except per share amounts):

	Three Months Ended June 30, 2002	Three Months Ended June 30, 2003	S
Net income, as reported	$1,170	$2,769	$
Deduct: Net stock-based employee compensation expense determined under fair value based method, net of related tax effects	(316)	(829)	
Pro forma net income	$ 854	$1,940	$
Earnings per share:			
Basic - as reported	$ 0.06	$ 0.13	$
Basic - pro forma	$ 0.04	$ 0.09	$
Diluted - as reported	$ 0.05	$ 0.12	$
Diluted - pro forma	$ 0.04	$ 0.08	$

Pro forma net income reflects only options granted through June 30, 2003 and, therefore, may not be representative of the effect for future periods.

Stock Splits. On July 16, 2002, the Company effected a 3-for-2 split of its common stock. On May 29, 2003 the Company effected a 2-for-1 split of its common stock. The stock splits have been retroactively reflected in the accompanying consolidated financial statements.

Note 3. Investment Impairment Charge - Non-Marketable Securities

At June 30, 2003, investments in non-marketable securities consist of an investment in AmericasDoctor.com, Inc., which is accounted for under the cost method in accordance with APB Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock." During 2001, in accordance with APB Opinion No. 18, management determined that a decrease in value of the investment occurred which was deemed to be other than temporary, and as a result wrote down the cost basis of the investment from $2,300,000 to $509,000. For the three and six months ended June 30, 2002 and 2003, no decrease in value was deemed to be other than temporary and, as a result, no investment impairment charge was recorded.

The Company will continue to assess the fair value of this investment and whether or not any decline in fair value below the current cost basis is deemed to be other than temporary. If a decline in the fair value of this investment is judged to be other than temporary, the cost basis of this investment would be written down to fair value, and the amount of the write-down would be included in the Company's results. Given the current performance and general market conditions for technology related companies, additional write-downs of this investment may occur in the future.

Note 4. Net Income per Common Share

The Company follows SFAS No. 128, "Earnings per Share." This statement requires the presentation of basic and diluted earnings per share. Basic net income per share is computed by dividing net income by the weighted average number of shares of common stock outstanding during the period. Diluted net income per share is computed by dividing net income by the weighted average number of shares of common stock outstanding during the period, adjusted for the dilutive effect of common stock equivalents, which consist of stock options, using the treasury stock method.

The tables below set forth the reconciliation of the numerators and denominators of the basic and diluted net income per share computations (in thousands, except per share amounts):

Three Months Ended June 30,

2002	Net Income	Shares
Basic net income	$1,170	20,918
Effect of dilutive shares	-	1,540
Diluted net income	$1,170	22,458
2003		
Basic net income	$2,769	21,868
Effect of dilutive shares	-	1,984
Diluted net income	$2,769	23,852

Options to purchase 3,403,816 shares of common stock were outstanding at June 30, 2002 and were included in the computation of diluted net income per share for the three months ended June 30, 2002.

Options to purchase 3,411,129 shares of common stock were outstanding at June 30, 2003 and were included in the computation of diluted net income per share for the three months ended June 30, 2003.

8

Six Months Ended June 30,

2002	Net Income	Shares
Basic net income	$1,879	20,846
Effect of dilutive shares	-	1,358
Diluted net income	$1,879	22,204

2003

Basic net income	$5,224	21,668
Effect of dilutive shares	-	1,924
Diluted net income	$5,224	23,592

Options to purchase 3,388,816 shares of common stock were outstanding at June 30, 2002 and were included in the computation of diluted net income per share for the six months ended June 30, 2002. Options to purchase 15,000 shares of common stock were outstanding at June 30, 2002, but were not included in the computation of diluted net income per share because the option exercise prices were greater than the average market price of the Company's common stock during the period.

Options to purchase 3,411,129 shares of common stock were outstanding at June 30, 2003 and were included in the computation of diluted net income per share for the six months ended June 30, 2003.

Note 5. Comprehensive Income

The Company follows SFAS No. 130, "Reporting Comprehensive Income." The Company's comprehensive income includes net income and unrealized gains and losses from foreign currency translation and marketable securities. The foreign currency translation adjustment was immaterial for the six months ended June 30, 2002. For the six months ended June 30, 2003, the Company recorded a foreign currency translation adjustment of $151,000 which increased the accumulated foreign currency translation income to $561,000. For the six months ended June 30, 2002, the Company recorded an unrealized gain of $299,000 for the mark to market of its investment in marketable securities.

Note 6. Recent Pronouncements

In July 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which addresses the financial accounting and reporting of expenses related to restructurings initiated after 2002, and applies to costs associated with an exit activity (including a restructuring) or with a disposal of long-lived assets. Those activities can include eliminating or reducing product lines, terminating employees and contracts, and relocating plant facilities or personnel. Under SFAS No. 146, a company will record a liability for a cost associated with an exit or disposal activity when the liability is incurred and can be measured at fair value. The provisions of SFAS No. 146 are effective prospectively for exit or disposal activities initiated after December 31, 2002. The adoption of SFAS No. 146 did not have any impact on the Company's financial statements.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," which elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees issued. The Interpretation also clarifies that a guarantor is required to recognize, at inception of a guarantee, a liability for the fair value of the obligation undertaken. The initial recognition and measurement provisions of the Interpretation are applicable to guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. The adoption of FASB Interpretation No. 45 did not have any impact on the Company's financial statements.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities," which addresses the consolidation by business enterprises of variable interest entities as defined in the Interpretation. The Interpretation applies immediately to variable interests in variable interest entities created after January 31, 2003, and to variable interests in variable interest entities obtained after January 31, 2003. The application of this Interpretation did not have any impact on the Company's financial statements.

The Emerging Issues Task Force (EITF) recently reached a consensus on EITF Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables," which provides accounting guidance for customer solutions where delivery or performance of products, services and/or performance may occur at different points in time or over different periods of time. Companies are required to adopt this consensus for fiscal periods beginning after June 15, 2003. The Company believes the adoption of EITF Issue No. 00-21 will not have a material impact on the Company's financial statements.

Note 7. Operating Segments / Geographic Information

Commencing in 2003, the Company considers its operations to consist of one segment. The development of the one segment approach corresponds to the implementation of the Company's refinement in strategic focus in late 2002, and represents management's view of the Company's operations. Prior to 2003, the Company's reportable segments were Cardiac Safety and Clinical Research Technology and Services. All prior periods have been restated to conform to the current-year presentation.

The Company operates on a worldwide basis with two locations in the United States and one location in the United Kingdom, which is categorized below as North America and Europe, respectively.

Geographic information is as follows:

	Three Months Ended June 30, 2002		
	North America	Europe	Tot
License revenues	$ 479	$ 17	$
Service revenues	6,945	2,663	9,
Net revenues from external customers	7,424	2,680	10,
Operating income	627	907	1,
Identifiable assets	41,270	3,529	44,

	Three Months Ended June 30, 2003		
	North America	Europe	Tot
License revenues	$ 864	$ 290	$ 1,
Service revenues	10,233	3,389	13,
Net revenues from external customers	11,097	3,679	14,
Operating income	2,676	1,649	4,
Identifiable assets	54,926	8,062	62,

10

	Six Months Ended June 30, 2002		
	North America	Europe	Tot
License revenues	$ 1,219	$ 31	$ 1,
Service revenues	12,642	4,573	17,
Net revenues from external customers	13,861	4,604	18,
Operating income	991	1,393	2,
Identifiable assets	41,270	3,529	44,

	Six Months Ended June 30, 2003		
	North America	Europe	Tot
License revenues	$ 1,951	$ 392	$ 2,
Service revenues	20,414	5,602	26,
Net revenues from external customers	22,365	5,994	28,
Operating income	5,880	2,301	8,
Identifiable assets	54,926	8,062	62,

11

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

Cautionary Statement for Forward-Looking Information

The following discussion and analysis should be read in conjunction with our financial statements and the related notes to the financial statements appearing elsewhere in this report. The following includes a number of forward-looking statements that reflect our current views with respect to future events and financial performance. We use words such as anticipate, believe, expect, intend, and similar expressions to identify forward-looking statements. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this report. These forward-looking statements are subject to risks and uncertainties such as competitive factors, technology development, market demand and our ability to obtain new contracts and accurately estimate net revenues due to variability in size, scope and duration of projects, and internal issues of the sponsoring client. These and other risk factors have been further discussed in our Report on Form 10-K for the year ended December 31, 2002. Such risks and uncertainties could cause actual results to differ materially from historical results or future predictions. Further information on potential factors that could affect our financial results can be found in our Report on Form 10-Q for the quarter ended March 31, 2003 filed with the

Securities and Exchange Commission and throughout this Form 10-Q.

Overview

We are a provider of technology and services that enable the pharmaceutical, biotechnology and medical device industries to collect, interpret and distribute cardiac safety and clinical data more efficiently. We are a market leader in providing centralized electrocardiographic (ECG) services (Cardiac Safety services) and a leading provider of technology and services that streamline the clinical trials process by enabling our customers to evolve from traditional, paper-based methods to electronic processing that leverages the power of the Internet.

We were founded in 1977 to provide a number of clinical research related services, including Cardiac Safety services, used to evaluate the safety of new drugs. In February 1997, we completed an initial public offering of our common stock. In October 1997, we acquired the assets and business of a provider of clinical research technology and consulting services to the pharmaceutical, biotechnology and medical device industry. Starting in 2000, we concentrated our products and services offerings on providing premier Cardiac Safety services and clinical research technology and consulting services.

Our solutions improve the collection, analysis and distribution of cardiac safety and clinical data in order to safely accelerate new drug and device development processes. We globally offer the following products and services:

Cardiac Safety. Cardiac Safety / EXPeRT(TM) ECG services provide intelligent, workflow-enabled data handling and distribution of digital and paper-based ECG data and images as well as analysis and physician electrocardiographer interpretation of ECGs performed on research subjects in connection with our customers' clinical trials.

eResNet(TM). The eResearch Network(TM) (eResNet) technology provides an integrated end-to-end clinical research solution that includes trials, data and safety management modules.

eDE(TM). eData Entry(TM) (eDE) technology provides a comprehensive electronic data capture (EDC) capability comprised of technology formulated to deliver rapid time to market benefit for electronic trial initiatives.

eResCom(TM). eResearch Community(TM) (eResCom) is a central command and control Web portal that provides real-time information related to monitoring clinical trial activities, data quality and safety.

Consulting. We provide a full spectrum of consulting services for all of our products that augment the implementation and execution efforts of customers.

Our license revenues consist of license fees for upfront license sales and monthly and annual license sales. Our services revenues consist of Cardiac Safety services, technology consulting and training services and software maintenance services.

We recognize software revenues in accordance with Statement of Position 97-2, Software Revenue Recognition, as amended by Statement of Position 98-9. Accordingly, we recognize up-front license fee revenues under the residual method when a formal agreement exists, delivery of the software and related documentation has occurred, collectability is probable and the license fee is fixed or determinable. We recognize monthly and annual license fee revenues over the term of the arrangement. Hosting service fees are recognized evenly over the term of service. Cardiac Safety service revenues consist of revenues from services that we provide on a fee-for-service basis and we recognize such revenues as the services are performed. We recognize revenues from software maintenance contracts on a straight-line basis over the term of the maintenance contract, which is typically twelve months. We provide consulting and training services on a time and materials basis and recognize revenues as we perform the services.

Cost of licenses consists primarily of application service provider (ASP) fees for those customers that choose hosting, the cost of producing compact disks and related documentation and royalties paid to third parties in connection with their contributions to our product development. Cost of services includes the cost of Cardiac Safety services and the cost of technology consulting, training and maintenance services. Cost of Cardiac Safety services consists primarily of direct costs related to our centralized Cardiac Safety services and includes wages, fees paid to outside consultants, depreciation, shipping expenses and other direct operating costs. Cost of technology consulting, training and maintenance services consists primarily of wages, fees paid to outside consultants and other direct operating costs related to our consulting and customer support functions. Selling and marketing expenses consist primarily of wages and commissions paid to sales personnel, travel expenses and advertising and promotional expenditures. General and administrative expenses consist primarily of wages and direct costs for our finance, administrative, corporate information technology and executive management functions, in addition to professional service fees and corporate insurance. Research and development expenses consist primarily of wages paid to our product development staff, costs paid to outside consultants and direct costs associated with the development of our technology products.

We conduct our operations through offices in the United States and the United Kingdom (UK). Our international net revenues represented 26.5% and 24.9% of total net revenue for the three months ended June 30, 2002 and 2003, respectively, and 24.9% and 21.1% of total net revenue for the six months ended June 30, 2002 and 2003, respectively.

Results of Operations

The following table presents certain financial data as a percentage of total net revenues:

	Three Months Ended June 30,		
	2002	2003	2
Net revenues:			
Licenses	4.9%	7.8%	
Services	95.1%	92.2%	
Total net revenues	100.0%	100.0%	1
Costs of revenues:			

Cost of licenses	1.5%	1.3%	
Cost of services	39.7%	38.1%	
Total costs of revenues	41.2%	39.4%	
Gross margin	58.8%	60.6%	
Operating expenses:			
Selling and marketing	19.0%	13.0%	
General and administrative	13.8%	10.6%	
Research and development	10.8%	7.7%	
Total operating expenses	43.6%	31.3%	
Operating income	15.2%	29.3%	
Other income, net	1.8%	0.6%	
Gain on sale of domestic CRO operation	-	-	
Income before income taxes	17.0%	29.9%	
Income tax provision	5.4%	11.2%	
Net income	11.6%	18.7%	

14

Three Months Ended June 30, 2003 Compared to Three Months Ended June 30, 2002.

The following table presents statements of operations with product line detail (in thousands):

	Three Months Ended June 30,		
	2002	2003	Increase
Licenses:			
Net revenues	$ 496	$ 1,154	$ 658
Costs of revenues	152	188	36
Gross margin	344	966	622
Services:			
Cardiac Safety			
Net revenues	8,048	11,735	3,687
Costs of revenues	3,239	4,657	1,418
Gross margin	4,809	7,078	2,269
Technology consulting and training			
Net revenues	573	911	338
Costs of revenues	441	708	267
Gross margin	132	203	71
Software maintenance			

Net revenues	987	976	(11)
Costs of revenues	326	265	(61)
Gross margin	661	711	50
Total services			
Net revenues	9,608	13,622	4,014
Costs of revenues	4,006	5,630	1,624
Gross margin	5,602	7,992	2,390
Total			
Net revenues	10,104	14,776	4,672
Costs of revenues	4,158	5,818	1,660
Gross margin	5,946	8,958	3,012
Operating expenses:			
Selling and marketing	1,922	1,924	2
General and administrative	1,398	1,569	171
Research and development	1,092	1,140	48
Total operating expenses	4,412	4,633	221
Operating income	1,534	4,325	2,791
Other income, net	186	88	(98)
Income before income taxes	1,720	4,413	2,693
Income tax provision	550	1,644	1,094
Net income	$ 1,170	$ 2,769	$ 1,599

15

The following table presents costs of revenues as a percentage of related net revenues and operating expenses as a percentage of total net revenues:

	Three Months Ended June 30,		Inc
	2002	2003	(Dec
Cost of licenses	30.6%	16.3%	(14
Cost of services:			
Cardiac Safety	40.2%	39.7%	(0
Technology consulting and training	77.0%	77.7%	0
Software maintenance	33.0%	27.2%	(5
Total cost of services	41.7%	41.3%	(0
Total costs of revenues	41.2%	39.4%	(1
Operating expenses:			
Selling and marketing	19.0%	13.0%	(6
General and administrative	13.8%	10.6%	(3
Research and development	10.8%	7.7%	(3

Total net revenues increased 46.2% to $14.8 million for the three months ended June 30, 2003 compared to $10.1 million for the three months ended June 30, 2002.

License revenues increased 132.7% to $1.2 million for the three months ended June 30, 2003 from $496,000 for the three months ended June 30, 2002. The increase in license revenues was primarily due to an increase in software licensed on a monthly and annual basis with new clients.

Total service revenues increased 41.8% to $13.6 million for the three months ended June 30, 2003 from $9.6 million for the three months ended June 30, 2002.

Cardiac Safety service revenues increased 45.8% to $11.7 million for the three months ended June 30, 2003 compared to $8.0 million for the three months ended June 30, 2002. The increase in Cardiac Safety service revenues was primarily due to increased sales volume with both new and existing clients, including an increase in revenue from the rental of cardiac safety equipment, which our clients use to perform cardiac safety procedures. Additionally, the average revenue per transaction has increased with a shift to digital ECG processing and the implementation of project assurance fees.

Technology consulting and training service revenues increased 59.0% to $911,000 for the three months ended June 30, 2003 compared to $573,000 for the three months ended June 30, 2002. The increase in technology consulting and training service revenues was primarily due to increased consulting activity for new clients as well as increases in implementation fees from new licenses.

Software maintenance service revenues decreased 1.1% to $976,000 for the three months ended June 30, 2003 compared to $987,000 for the three months ended June 30, 2002. Software maintenance service revenues decreased due to a low level of license sales that included maintenance as a separate component of revenue combined with a reduction in users at one client. Annual licenses do not contain a separate maintenance component.

Total cost of revenues increased 39.9% to $5.8 million for the three months ended June 30, 2003 compared to $4.2 million for the three months ended June 30, 2002. As a percentage of total net revenues, total cost of revenues decreased to 39.4% for the three months ended June 30, 2003 from 41.2% for the three months ended June 30, 2002.

The cost of licenses increased 23.7% to $188,000 for the three months ended June 30, 2003 from $152,000 for the three months ended June 30, 2002. The increase in the cost of licenses was primarily due to third-party software license expense partially offset by a decrease in ASP hosting fees associated with a change in ASP hosting providers at the beginning of 2003.

16

As a percentage of license revenues, the cost of licenses decreased to 16.3% for the three months ended June 30, 2003 from 30.6% for the three months ended June 30, 2002. The decrease was due primarily to the increase in license revenues without a comparable increase in costs, many of which are fixed in nature.

The cost of services increased 40.5% to $5.6 million for the three months ended June 30, 2003 from $4.0 million for the three months ended June 30, 2002. As a percentage of service revenues, the cost of services decreased to 41.3% for the three months ended June 30, 2003 from 41.7% for the three months ended June 30, 2002.

The cost of Cardiac Safety services increased 43.8% to $4.7 million for the three months ended June 30, 2003 compared to $3.2 million for the three months ended June 30, 2002. The increase in the cost of Cardiac Safety services was primarily due to an increase in rental and depreciation costs associated with cardiac safety rental equipment, and increased labor, facilities and other costs associated with expanding capabilities to meet the growth in Cardiac Safety service revenues. We also began amortization of our internal use software costs during the third quarter of 2002. Additional internal use software costs were capitalized throughout the remainder of 2002 and through the first quarter of 2003. We began amortizing the additional capitalized costs in the second quarter of 2003. Amortization expense related to internal use software costs was $318,000 for the three months ended June 30, 2003.

As a percentage of Cardiac Safety service revenues, the cost of Cardiac Safety services decreased to 39.7% for the three months ended June 30, 2003 from 40.2% for the three months ended June 30, 2002. The decrease in the cost of Cardiac Safety services as a percentage of Cardiac Safety service revenues was primarily due to the increase in Cardiac Safety service revenues without a comparable increase in costs, some of which are fixed in nature.

The cost of technology consulting and training services increased 60.5% to $708,000 for the three months ended June 30, 2003 from $441,000 for the three months ended June 30, 2002. The increase in the cost of technology consulting and training services was due primarily to increased third party consulting and labor costs associated with the increase in technology consulting and training service revenues.

The cost of technology consulting and training services as a percentage of technology consulting and training service revenues increased to 77.7% for the three months ended June 30, 2003 from 77.0% for the three months ended June 30, 2002. The increase in the cost of technology consulting and training services as a percentage of technology consulting and training service revenues was due primarily to additional costs that were not fully utilized in revenue-generating activities during the three months ended June 30, 2003.

The cost of software maintenance services decreased 18.7% to $265,000, or 27.2% of software maintenance service revenues, for the three months ended June 30, 2003, from $326,000, or 33.0% of software maintenance service revenues, for the three months ended June 30, 2002. The decrease in the cost of software maintenance services, both in absolute terms and as a percentage of software maintenance service revenues, was due primarily to a reduction in labor, office rent, depreciation and other costs during the first quarter of 2003.

Selling and marketing expenses remained level at $1.9 million for the three months ended June 30, 2003 and for the three months ended June 30, 2002. Increases in commissions that resulted from the increase in commissionable revenue were offset by planned reductions in advertising and marketing expenses.

As a percentage of total net revenues, selling and marketing expenses decreased to 13.0% for the three months ended June 30, 2003 from 19.0% for the three months ended June 30, 2002. The decrease in selling and marketing expenses as a percentage of total net revenues was primarily due to the increase in total net revenues with no increase in selling and marketing expenses.

General and administrative expenses increased 12.2% to $1.6 million for the three months ended June 30, 2003 from $1.4 million for the three months ended June 30, 2002. The increase in general and administrative expenses was due primarily to an increase in insurance and public relations expense during the three months ended June 30, 2003.

As a percentage of total net revenues, general and administrative expenses decreased to 10.6% for the three months ended June 30, 2003 from 13.8% for the three months ended June 30, 2002. The decrease in general and administrative expenses as a percentage of total net revenues was primarily due to the increase in total net revenues with a less than proportional increase in general and administrative expenses, many of which are fixed in nature.

Research and development expenses remained constant at $1.1 million for the three months ended June 30, 2003 and for the three months ended June 30, 2002.

As a percentage of total net revenues, research and development expenses decreased to 7.7% for the three months ended June 30, 2003 from 10.8% for the three months ended June 30, 2002. The decrease in research and development expenses as a percentage of total net revenues was primarily due to the increase in total net revenues with only a minimal increase in research and development expenses, many of which are fixed in nature.

Other income, net, consisted primarily of interest income realized from our cash, cash equivalents and short-term investments, net of interest expense related to capital lease obligations. Additionally, $47,000 of interest income was earned on the escrow accounts related to the sale of the domestic clinical research operations to SCP Communications, Inc. and was recorded during the three months ended June 30, 2002. Other income, net, decreased 52.7% to $88,000 for the three months ended June 30, 2003 compared to $186,000 for the three months ended June 30, 2002. The primary reasons for the decrease were lower interest rates during the first quarter of 2003. The decrease was also due to interest income earned on the escrow accounts, which was realized during the three months ended June 30, 2002.

Our effective tax rate was 32.0% and 37.3% for the three months ended June 30, 2002 and 2003, respectively. The 2003 tax rate increased primarily due to new tax legislation that increased our 2003 income tax liability to New Jersey as well as our decision to provide deferred taxes for the repatriation of foreign earnings, which was made in the fourth quarter of 2002.

Six Months Ended June 30, 2003 Compared to Six Months Ended June 30, 2002.

The following table presents statements of operations with product line detail (in thousands):

	Six Months Ended June 30,		
	2002	2003	Increase
Licenses:			
Net revenues	$ 1,250	$ 2,343	$ 1,093
Costs of revenues	286	332	46
Gross margin	964	2,011	1,047
Services:			
Cardiac Safety			
Net revenues	14,337	22,271	7,934
Costs of revenues	5,937	8,980	3,043
Gross margin	8,400	13,291	4,891

Technology consulting and training			
Net revenues	939	1,763	824
Costs of revenues	818	1,312	494
Gross margin	121	451	330
Software maintenance			
Net revenues	1,939	1,982	43
Costs of revenues	652	525	(127)
Gross margin	1,287	1,457	170
Total services			
Net revenues	17,215	26,016	8,801
Costs of revenues	7,407	10,817	3,410
Gross margin	9,808	15,199	5,391
Total			
Net revenues	18,465	28,359	9,894
Costs of revenues	7,693	11,149	3,456
Gross margin	10,772	17,210	6,438
Operating expenses:			
Selling and marketing	3,397	3,747	350
General and administrative	2,740	3,078	338
Research and development	2,251	2,204	(47)
Total operating expenses	8,388	9,029	641
Operating income	2,384	8,181	5,797
Other income, net	344	144	(200)
Gain on sale of domestic CRO operation	35	-	(35)
Income before income taxes	2,763	8,325	5,562
Income tax provision	884	3,101	2,217
Net income	$ 1,879	$ 5,224	$ 3,345

The following table presents costs of revenues as a percentage of related net revenues and operating expenses as a percentage of total net revenues:

	Six Months Ended June 30,		
	2002	2003	Decrea
Cost of licenses	22.9%	14.2%	(8.7%
Cost of services:			
Cardiac Safety	41.4%	40.3%	(1.1%
Technology consulting and training	87.1%	74.4%	(12.7%
Software maintenance	33.6%	26.5%	(7.1%

Total cost of services	43.0%	41.6%	(1.4%
Total costs of revenues	41.7%	39.3%	(2.4%
Operating expenses:			
Selling and marketing	18.4%	13.2%	(5.2%
General and administrative	14.8%	10.9%	(3.9%
Research and development	12.2%	7.8%	(4.4%

Total net revenues increased 53.6% to $28.4 million for the six months ended June 30, 2003 compared to $18.5 million for the six months ended June 30, 2002.

License revenues increased 87.4% to $2.3 million for the six months ended June 30, 2003 from $1.3 million for the six months ended June 30, 2002. The increase in license revenues was primarily due to an increase in software licensed on a monthly and annual basis.

Total service revenues increased 51.1% to $26.0 million for the six months ended June 30, 2003 from $17.2 million for the six months ended June 30, 2002.

Cardiac Safety service revenues increased 55.3% to $22.3 million for the six months ended June 30, 2003 compared to $14.3 million for the six months ended June 30, 2002. The increase in Cardiac Safety service revenues was primarily due to increased sales volume with both new and existing clients, including an increase in revenue from the rental of cardiac safety equipment, which our clients use to perform cardiac safety procedures. Additionally, the average revenue per transaction has increased with a shift to digital ECG processing and the implementation of project assurance fees.

Technology consulting and training service revenues increased 87.8% to $1.8 million for the six months ended June 30, 2003 compared to $939,000 for the six months ended June 30, 2002. The increase in technology consulting and training service revenues was primarily due to increased consulting activity for new clients as well as increases in implementation fees from new licenses.

Software maintenance service revenues increased 2.2% to $2.0 million for the six months ended June 30, 2003 compared to $1.9 million for the six months ended June 30, 2002. Software maintenance service revenues did not increase proportionately with license revenues due to a low level of license sales that included maintenance as a separate component of revenue combined with a reduction in users at one client. Annual licenses do not contain a separate maintenance component.

Total cost of revenues increased 44.9% to $11.1 million for the six months ended June 30, 2003 compared to $7.7 million for the six months ended June 30, 2002. As a percentage of total net revenues, total cost of revenues decreased to 39.3% for the six months ended June 30, 2003 from 41.7% for the six months ended June 30, 2002.

The cost of licenses increased 16.1% to $332,000 for the six months ended June 30, 2003 from $286,000 for the six months ended June 30, 2002. The increase in the cost of licenses was primarily due to third-party software license expense partially offset by a decrease in ASP hosting fees associated with a change in ASP hosting providers at the beginning of 2003.

20

As a percentage of license revenues, the cost of licenses decreased to 14.2% for the six months ended June 30, 2003 from 22.9% for the six months ended June 30, 2002. The decrease was due primarily to the increase in license revenues without a comparable increase in costs, many of which are fixed in nature.

The cost of services increased 46.0% to $10.8 million for the six months ended June 30, 2003 from $7.4 million for the six months ended June 30, 2002. As a percentage of service revenues, the cost of services decreased to 41.6% for the six months ended June 30, 2003 from 43.0% for the six months ended June 30, 2002.

The cost of Cardiac Safety services increased 51.3% to $9.0 million for the six months ended June 30, 2003 compared to $5.9 million for the six months ended June 30, 2002. The increase in the cost of Cardiac Safety services was primarily due to an increase in rental and depreciation costs associated with cardiac safety rental equipment, and increased labor, facilities and other costs associated with expanding capabilities to meet the growth in Cardiac Safety service revenues. We also began amortization of our internal use software costs during the third quarter of 2002. Additional internal use software costs were capitalized throughout the remainder of 2002 and through the first quarter of 2003. We began amortizing the additional capitalized costs in the second quarter of 2003. Amortization expense related to internal use software costs was $570,000 for the six months ended June 30, 2003.

As a percentage of Cardiac Safety service revenues, the cost of Cardiac Safety services decreased to 40.3% for the six months ended June 30, 2003 from 41.4% for the six months ended June 30, 2002. The decrease in the cost of Cardiac Safety services as a percentage of Cardiac Safety service revenues was primarily due to the increase in Cardiac Safety service revenues without a comparable increase in costs, some of which are fixed in nature.

The cost of technology consulting and training services increased 60.4% to $1.3 million for the six months ended June 30, 2003 from $818,000 for the six months ended June 30, 2002. The increase in the cost of technology consulting and training services was due primarily to increased third party consulting and labor costs associated with the increase in technology consulting and training service revenues.

The cost of technology consulting and training services as a percentage of technology consulting and training service revenues decreased to 74.4% for the six months ended June 30, 2003 from 87.1% for the six months ended June 30, 2002. The decrease in the cost of technology consulting and training services as a percentage of technology consulting and training service revenues was due primarily to the increase in consulting and training service revenues without a comparable increase in costs, some of which are fixed in nature.

The cost of software maintenance services decreased 19.5% to $525,000, or 26.5% of software maintenance service revenues, for the six months ended June 30, 2003, from $652,000, or 33.6% of software maintenance service revenues, for the six months ended June 30, 2002. The decrease in the cost of software maintenance services, both in absolute terms and as a percentage of software maintenance service revenues, was due primarily to a reduction in labor, office rent, depreciation and other costs during the six months ended June 30, 2003.

Selling and marketing expenses increased 10.3% to $3.7 million for the six months ended June 30, 2003 from $3.4 million for the six months ended June 30, 2002. The increase in selling and marketing expenses was due primarily to increased commissions that resulted from the increase in commissionable revenue as well as additional labor costs associated with new hires.

As a percentage of total net revenues, selling and marketing expenses decreased to 13.2% for the six months ended June 30, 2003 from 18.4% for the six months ended June 30, 2002. The decrease in selling and marketing expenses as a percentage of total net revenues was primarily due to the increase in total net revenues without a comparable increase in costs.

General and administrative expenses increased 12.3% to $3.1 million for the six months ended June 30, 2003 from $2.7 million for the six months ended June 30, 2002. The increase in general and administrative expenses was due primarily to an increase in insurance and public relations expense during the six months ended June 30, 2003.

21

As a percentage of total net revenues, general and administrative expenses decreased to 10.9% for the six months ended June 30, 2003 from 14.8% for the six months ended June 30, 2002. The decrease in general and administrative expenses as a percentage of total net revenues was primarily due to the increase in total net revenues with a less than proportional increase in general and administrative expenses, many of which are fixed in nature.

Research and development expenses decreased 2.1% to $2.2 million for the six months ended June 30, 2003 from $2.3 million for the six months ended June 30, 2002. The decrease in research and development expenses is primarily due to a reduction in third-party consulting expense.

As a percentage of total net revenues, research and development expenses decreased to 7.8% for the six months ended June 30, 2003 from 12.2% for the six months ended June 30, 2002. The decrease in research and development expenses as a percentage of total net revenues was primarily due to the increase in total net revenues without a comparable increase in research and development expenses, many of which are fixed in nature.

Other income, net, consisted primarily of interest income realized from our cash, cash equivalents and short-term investments, net of interest expense related to capital lease obligations. We also recorded a net realized gain of $73,000 from the sale of our shares of our investment in Digital Angel Corporation (DAC) (formerly known as Medical Advisory Systems, Inc.) during the six months ended June 30, 2002. Additionally, $47,000 of interest income was earned on the escrow accounts related to the sale of the domestic clinical research operations to SCP Communications, Inc. and was recorded during the six months ended June 30, 2002. Other income, net, decreased 58.1% to $144,000 for the six months ended June 30, 2003 compared to $344,000 for the six months ended June 30, 2002. In addition to the gain on the sale of the DAC shares and the interest income earned on the escrow accounts, both of which were realized during the six months ended June 30, 2002, the decrease in other income, net was also due to lower interest rates during the six months ended June 30, 2003.

Our effective tax rate was 32.0% and 37.3% for the six months ended June 30, 2002 and 2003, respectively. The 2003 tax rate increased primarily due to new tax legislation that increased our 2003 income tax liability to New Jersey as well as our decision to provide deferred taxes for the repatriation of foreign earnings, which was made in the fourth quarter of 2002.

Liquidity and Capital Resources

At June 30, 2003, we had $22.2 million of cash and cash equivalents and $9.6 million invested in short-term investments. We generally place our investments in money market funds, municipal securities, bonds of government-sponsored agencies, certificates of deposit with maturities of less than one year, and A1P1 rated commercial bonds and paper.

For the six months ended June 30, 2003, our operations provided cash of $5.8 million compared to $2.7 million for the six months ended June 30, 2002. The change was primarily the result of improved operating income as well as stock option income tax benefits recognized during the six months ended June 30, 2003. These changes were partially offset by an increase in accounts receivable during the six months ended June 30, 2003 compared to the six months ended June 30, 2002.

For the six months ended June 30, 2003, our investing activities used cash of $3.1 million compared to $2.3 million used for the six months ended June 30, 2002. The primary cause of the change is the proceeds from the sales of marketable securities during the six months ended June 30, 2002. There were no sales of marketable securities during the six months ended June 30, 2003. During the six months ended June 30, 2003, we capitalized $2.8 million of property and equipment compared to $2.9 million capitalized during the six months ended June 30, 2002. The decrease was primarily the result of lower expenditures for internal use software partially offset by higher purchases of cardiac safety rental equipment in the six months ended June 30, 2003 compared to the six months ended June 30, 2002. Included in property and equipment is internal use software associated with the development of a new data and communications management services software product used in connection with our centralized core cardiac safety electrocardiographic services. We capitalize our internal use software costs in accordance with Statement of Position No. 98-1. We began amortizing $4.0 million of internal use software costs in August of 2002, which resulted in an additional amortization charge to the cost of Cardiac Safety services of approximately $84,000 per month. Additional internal use software costs of $1.1 million were capitalized throughout the remainder of 2002 and

through the first quarter of 2003. We began amortizing the additional capitalized costs in the second quarter of 2003, which resulted in additional amortization charges of approximately $22,000 per month. We started a new internal use software project in the second quarter of 2003 for which we expect to capitalize costs through the fourth quarter of 2003.

For the six months ended June 30, 2003, our financing activities provided cash of $1.9 million compared to $666,000 for the six months ended June 30, 2002. During the six months ended June 30, 2003, we received $2.2 million in cash from the exercise of stock options at exercise prices per option of between $1.25 and $6.70.

We have a line of credit arrangement with Wachovia Bank, National Association totaling $3.0 million. At June 30, 2003, we had no outstanding borrowings under the line.

We expect that existing cash and cash equivalents, short-term investments, cash flows from operations and available borrowings under our line of credit will be sufficient to meet our foreseeable cash needs for at least the next year. However, there may be acquisition and other growth opportunities that require additional external financing and we may from time to time seek to obtain additional funds from the public or private issuances of equity or debt securities. There can be no assurance that such financings will be available or available on terms acceptable to us.

Inflation

We believe the effects of inflation and changing prices generally do not have a material adverse effect on our results of operations or financial condition.

Item 3. Qualitative and Quantitative Disclosures About Market Risk

Our primary financial market risks include fluctuations in interest rates and currency exchange rates.

Interest Rate Risk

We generally place our investments in money market funds, municipal securities, bonds of government sponsored agencies, certificates of deposit with fixed rates with maturities of less than one year, and A1P1 rated commercial bonds and paper. We actively manage our portfolio of cash equivalents and short-term investments, but in order to ensure liquidity, will only invest in instruments with high credit quality where a secondary market exists. We have not held and do not hold any derivatives related to our interest rate exposure. Due to the average maturity and conservative nature of our investment portfolio, a sudden change in interest rates would not have a material effect on the value of the portfolio. Management estimates that had the average yield of our investments decreased by 100 basis points, our interest income for the six months ended June 30, 2003 would have decreased by less than $150,000. This estimate assumes that the decrease occurred on the first day of 2003 and reduced the yield of each investment by 100 basis points. The impact on our future interest income of future changes in investment yields will depend largely on the gross amount of our cash, cash equivalents and short-term investments. See "Liquidity and Capital Resources" as part of Management's Discussion and Analysis of Financial Condition and Results of Operations.

Foreign Currency Risk

We operate on a global basis from locations in the United States and the United Kingdom. All international net revenues are billed and expenses incurred in either U.S. dollars or British pound sterling. As such, we face exposure to adverse movements in the exchange rate of the British pound sterling. As the currency rate changes, translation of the income statement of our UK subsidiary from the local currency to U.S. dollars affects year-to-year comparability of operating results. We do not hedge translation risks because any cash flows from UK operations are generally reinvested in the UK.

Management estimates that a 10% change in the exchange rate of the British pound sterling would have impacted the reported operating income for the six months ended June 30, 2003 by less than $240,000.

23

Item 4. Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by our Company (including our consolidated subsidiaries) in our periodic filings with the Securities and Exchange Commission is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms. There has been no change in our internal control over financial reporting during the quarter covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

24

Part II. Other Information

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

We held our Annual Meeting of Stockholders on April 22, 2003. The matters submitted to the stockholders for vote were the election of three directors to each serve a three-year term until 2006, approval of our 2003 Stock Option Plan, approval of an amendment to our Restated Certificate of Incorporation to authorize an additional 35,000,000 shares of Common Stock, $0.01 par value, and ratification of the appointment of KPMG LLP as our independent accountants for the year ending December 31, 2003.

At the meeting, the stockholders elected Joseph A. Esposito, John M. Ryan and David D. Gathman to the Board of Directors. Joseph A. Esposito was elected with 8,614,978 shares voted for the election, or 79.3% of the 10,870,555 shares outstanding and eligible to vote, with 1,444,762 shares withheld. John M. Ryan was elected with 9,739,140 shares voted for the election, or 89.6% of the 10,870,555 shares outstanding and eligible to vote, with 320,600 shares withheld. David D. Gathman was elected with 9,745,892 shares voted for the election, or 89.7% of the 10,870,555 shares outstanding and eligible to vote, with 313,848 shares withheld. With their election, they joined Sheldon M. Bonovitz, Arthur H. Hayes, M.D., Stephen S. Phillips and Joel Morganroth, M.D. as our Directors.

The stockholders approved our 2003 Stock Option Plan with 5,801,477 shares voted for the approval, or 53.4% of the 10,870,555 shares outstanding and eligible to vote, with 897,677 shares voted against the approval and 11,135 shares abstained.

The stockholders approved the amendment to our Restated Certificate of Incorporation to authorize an additional 35,000,000 shares of Common Stock, $0.01 par value, with 7,812,560 shares voted for the amendment, or 71.9% of the 10,870,555 shares outstanding and eligible to vote, with 2,215,190 shares voted against the amendment and 31,990 shares abstained.

In addition, the stockholders ratified the appointment of KPMG LLP as our independent accountants for 2003 with 9,932,506 shares voted for ratification, or 91.4% of the 10,870,555 shares outstanding and eligible to vote, with 97,602 shares voted against ratification and 29,632 shares abstained.

All share amounts referred to in this Item 4 have not been adjusted to reflect our 2-for-1 stock split effective on May 29, 2003.

Item 6. Exhibits and Reports on Form 8-K

a.) Exhibits

10.3 2003 Stock Option Plan

31.1 Certification of Chief Executive Officer

31.2 Certification of Chief Financial Officer

32.1 Statement of Chief Executive Officer Pursuant to Section 1350 of Title 18 of the United States Code

32.2 Statement of Chief Financial Officer Pursuant to Section 1350 of Title 18 of the United States Code

b.) Reports on Form 8-K

On April 23, 2003, we filed a report on Form 8-K disclosing a press release we issued on April 23, 2003, reporting our results of operations for the quarter ended March 31, 2003 and providing financial guidance for the second quarter and fiscal 2003.

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.

eResearchTechnology, Inc.
(Registrant)

Date: August 7, 2003 By: Joseph A. Esposito

Joseph A. Esposito
President and Chief Executive Officer, Director (Principal executive officer)

Date: August 7, 2003 By: Bruce Johnson

Bruce Johnson
Senior Vice President and Chief Financial Officer (Principal financial and accounting officer)

EXHIBIT INDEX

Exhibit No.	Exhibit
10.3	2003 Stock Option Plan
31.1	Certification of Chief Executive Officer
31.2	Certification of Chief Financial Officer
32.1	Statement of Chief Executive Officer Pursuant to Section 1350 of Title 18 of the United States Code
32.2	Statement of Chief Financial Officer Pursuant to Section 1350 of Title 18 of the United States Code