ROYAL BANK OF CANADA
Form FWP
October 11, 2018

ISSUER FREE WRITING PROSPECTUS
Filed Pursuant to Rule 433
Registration Statement No. 333-227001
Dated October 10, 2018
Royal Bank of Canada Step Down Trigger Autocallable Notes
$[·] Notes Linked to the Least Performing Underlying of the S&P 500® Index and the Russell 2000® Index due on or about October 15, 2021

Investment Description

Step Down Trigger Autocallable Notes (the "Notes") are unsecured and unsubordinated debt securities issued by Royal Bank of Canada linked to the performance of the least performing of the S&P 500® Index and the Russell 2000® Index (each, an "Underlying Index," and together, the "Underlying Indices"). If each Underlying Index closes at or above (a) its closing level on October 10, 2018 (its "Initial Level") on any of the first two Observation Dates (which will occur first approximately one year after the settlement date and then annually thereafter as described below), or (b) its Downside Threshold on the final Observation Date, then we will automatically call the Notes and pay you a Call Price equal to the principal amount per Note plus a Call Return based on the Call Return Rate. The Call Return increases the longer the Notes are outstanding, as described below. If by maturity the Notes have not been called and the Least Performing Underlying Index (as defined below) closes below the Downside Threshold on the final Observation Date, we will repay less than the principal amount, if anything, resulting in a loss that is proportionate to the decline in the level of the Least Performing Underlying Index from the Trade Date to the final Observation Date, up to a 100% loss of your principal amount invested. The Notes are not subject to conversion into our common shares under subsection 39.2(2.3) of the Canada Deposit Insurance Corporation Act.
Investing in the Notes involves significant risks. The Notes do not pay interest. You may lose some or all of your principal amount. Generally, the higher the Call Return Rate on a Note, the greater the risk of loss on that Note. The contingent repayment of principal applies only if you hold the Notes to maturity. Any payment on the Notes, including any repayment of principal, is subject to our creditworthiness and is not, either directly or indirectly, an obligation of any third party. If we were to default on our payment obligations, you may not receive any amounts owed to you under the Notes and you could lose your entire principal amount. The Notes will not be listed on any securities exchange.
Features Key Dates[1]

£ Call Return Feature- We will automatically call the Notes for a Call Price equal to the principal amount plus the applicable Call Return based on the Call Return Rate if the closing level of each Underlying Index on any Observation Date is equal to or greater than (a) its Initial Level (in the case of the first two Observation Dates) or (b) its Downside Threshold (in the case of the final Observation Date). The Call Return increases the longer the Notes are outstanding. If the Notes are not called, investors will have full downside market exposure to the Least Performing Underlying Index at maturity.

£ Downside Exposure at Maturity – If the Notes are not called and, therefore, the Least Performing Underlying Index closes below its Downside Threshold on the final Observation Date, we will pay less than your principal amount, if anything, resulting in a loss of your principal amount that will be proportionate to its full negative Underlying Return. Any contingent repayment of principal only applies if you hold the Notes to maturity. Any payment on the Notes, including any repayment of principal, is subject to our creditworthiness.

Trade Date[1]	October 11, 2018
Settlement Date[1]	October 15, 2018
Observation Dates[2]	Annually (beginning after one year) (see page 7)
Final Observation Date[2]	October 12, 2021
Maturity Date[2]	October 15, 2021

[1] Expected. In the event that we make any change to the expected trade date and settlement date, the Observation Dates and/or the maturity date will be changed so that the stated term of the Notes remains approximately the same.

[2] Subject to postponement if a market disruption event occurs, as described under "General Terms of the Notes—Payment at Maturity" below.

NOTICE TO INVESTORS: THE NOTES ARE SIGNIFICANTLY RISKIER THAN CONVENTIONAL DEBT INSTRUMENTS. THE ISSUER IS NOT NECESSARILY OBLIGATED TO REPAY THE FULL PRINCIPAL AMOUNT OF THE NOTES AT MATURITY, AND THE NOTES CAN HAVE DOWNSIDE MARKET RISK SIMILAR TO THE LEAST PERFORMING UNDERLYING INDEX. YOU WILL BE EXPOSED TO THE MARKET RISK OF EACH UNDERLYING INDEX ON EACH OBSERVATION DATE, AND ANY DECLINE IN THE LEVEL OF ANY UNDERLYING INDEX MAY NEGATIVELY AFFECT YOUR RETURN AND WILL NOT BE OFFSET OR MITIGATED BY A LESSER DECLINE OR ANY POTENTIAL INCREASE IN THE LEVEL OF THE OTHER UNDERLYING INDEX. THIS MARKET RISK IS IN ADDITION TO THE CREDIT RISK INHERENT IN PURCHASING A DEBT OBLIGATION OF ROYAL BANK OF CANADA. YOU SHOULD NOT PURCHASE THE NOTES IF YOU DO NOT UNDERSTAND OR ARE NOT COMFORTABLE WITH THE SIGNIFICANT RISKS INVOLVED IN INVESTING IN THE NOTES.

YOU SHOULD CAREFULLY CONSIDER THE RISKS DESCRIBED UNDER "KEY RISKS" BEGINNING ON PAGE 6 OF THIS FREE WRITING PROSPECTUS AND UNDER "RISK FACTORS" BEGINNING ON PAGE S-1 OF THE PROSPECTUS SUPPLEMENT BEFORE PURCHASING ANY NOTES. EVENTS RELATING TO ANY OF THOSE RISKS, OR OTHER RISKS AND UNCERTAINTIES, COULD ADVERSELY AFFECT THE MARKET VALUE OF, AND THE RETURN ON, YOUR NOTES. YOU MAY LOSE SOME OR ALL OF YOUR INITIAL INVESTMENT IN THE NOTES.

Note Offering

This free writing prospectus relates to Step Down Trigger Autocallable Notes we are offering linked to the least performing underlying of the S&P 500® Index and the Russell 2000® Index. The Initial Levels are the closing levels of the Underlying Indices on October 10, 2018. The Notes will be issued in minimum denominations of $10.00, and integral multiples of $10.00 in excess thereof, with a minimum investment of $1,000.00.

Underlying Indices (Least Performing of)	Tickers	Call Return Rate	Initial Levels	Downside Thresholds	CUSIP	ISIN
S&P 500® Index (SPX)	SPX	8.90%	2,785.68	1,949.97, which is 70% of its Initial Level (rounded to two decimal places).	78014G633	US78014G6338
Russell 2000® Index (RTY)	RTY		1,575.412	1,102.788, which is 70% of its Initial Level (rounded to three decimal places)		

See "Additional Information About Royal Bank of Canada and the Notes" in this free writing prospectus. The Notes will have the terms specified in the prospectus dated September 7, 2018, the prospectus supplement dated September 7, 2018 and this free writing prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the Notes or passed upon the accuracy or the adequacy of this free writing prospectus or the accompanying prospectus and prospectus supplement. Any representation to the contrary is a criminal offense.

	Price to Public		Fees and Commissions[1]		Proceeds to Us	
Offering of the Notes	Total	Per Note	Total	Per Note	Total	Per Note
Notes linked to the Least Performing Underlying of the S&P 500® Index and the Russell 2000® Index	h	$10.00	$0.00	$0.00	h	$10.00

[1] All sales of the Notes will be made to certain fee-based advisory accounts for which UBS Financial Services Inc., which we refer to as UBS, is an investment advisor and UBS will act as placement agent. The purchase price will be $10.00 per Note and UBS will forgo any commissions related to these sales. See "Supplemental Plan of Distribution (Conflicts of Interest)" below.

The initial estimated value of the Notes as of the date of this document is $9.9825 per $10 in principal amount, which is less than the price to public. The pricing supplement relating to the Notes will set forth our updated estimate of the initial value of the Notes as of the trade date, which will not be more than $0.20 less than this amount. The actual value of the Notes at any time will reflect many factors, cannot be predicted with accuracy, and may be less than this amount. We describe our determination of the initial estimated value under “Key Risks,” “Supplemental Plan of Distribution (Conflicts of Interest)” and “Structuring the Notes” below.
The Notes will not constitute deposits insured under the Canada Deposit Insurance Corporation Act or by the United States Federal Deposit Insurance Corporation or any other Canadian or United States government agency or instrumentality.

UBS Financial Services Inc. RBC Capital Markets, LLC

Additional Information About Royal Bank of Canada and the Notes

Royal Bank of Canada has filed a registration statement (including a prospectus) with the Securities and Exchange Commission, or SEC, for the offering to which this free writing prospectus relates. Before you invest, you should read the prospectus in that registration statement and the other documents relating to this offering that Royal Bank of Canada has filed with the SEC for more complete information about Royal Bank of Canada and this offering. You may obtain these documents without cost by visiting EDGAR on the SEC website at www.sec.gov. Alternatively, Royal Bank of Canada, any agent or any dealer participating in this offering will arrange to send you the prospectus, the prospectus supplement, and this free writing prospectus if you so request by calling toll-free 1-877-688-2301.

You may revoke your offer to purchase the Notes at any time prior to the time at which we accept such offer by notifying the applicable agent. We reserve the right to change the terms of, or reject any offer to purchase, the Notes prior to their issuance. In the event of any changes to the terms of the Notes, we will notify you and you will be asked to accept such changes in connection with your purchase. You may also choose to reject such changes, in which case we may reject your offer to purchase.

You should read this free writing prospectus together with the prospectus dated September 7, 2018, as supplemented by the prospectus supplement dated September 7, 2018, relating to our Series H medium-term notes of which these Notes are a part. This free writing prospectus, together with the documents listed below, contains the terms of the Notes and supersedes all other prior or contemporaneous oral statements as well as any other written materials including preliminary or indicative pricing terms, correspondence, trade ideas, structures for implementation, sample structures, fact sheets, brochures or other educational materials of ours.

If the terms discussed in this free writing prospectus differ from those discussed in the prospectus supplement or the prospectus, the terms discussed herein will control.

You may access these on the SEC website at www.sec.gov as follows (or if such address has changed, by reviewing our filing for the relevant date on the SEC website):

- Prospectus supplement dated September 7, 2018:
  https://www.sec.gov/Archives/edgar/data/1000275/000121465918005975/f97180424b3.htm
- Prospectus dated September 7, 2018:
  https://www.sec.gov/Archives/edgar/data/1000275/000121465918005973/l96181424b3.htm

As used in this free writing prospectus, “we,” “us” or “our” refers to Royal Bank of Canada.

Investor Suitability

The Notes may be suitable for you if, among other considerations:

- You fully understand the risks inherent in an investment in the Notes, including the risk of loss of your entire initial investment.
- You can tolerate a loss of all or a substantial portion of your investment and are willing to make an investment that may have the same downside market risk as an investment in the securities composing the Least Performing Underlying Index.
- You believe each Underlying Index will close at or above its Initial Level on any of the first two Observation Dates, or you believe each Underlying Index will not close below its Downside Threshold on the final Observation Date.
- You are willing to make an investment whose return is limited to the Call Return Rate, regardless of any potential appreciation of the Underlying Indices, which could be significant.
- You do not seek guaranteed current income from this investment and are willing to forgo the dividends paid on the equity securities composing the Underlying Indices.
- You can tolerate fluctuations in the price of the Notes prior to maturity that may be similar to or exceed the downside fluctuations of the Underlying Indices.
- You are willing to invest in Notes for which there may be little or no secondary market, and you accept that the secondary market will depend in large part on the price, if any, at which RBC Capital Markets, LLC, which we refer to as "RBCCM," is willing to purchase the Notes.
- You are willing to invest in the Notes based on the Call Return specified on the cover page of this free writing prospectus.
- You are willing to invest in the Notes based on the Downside Threshold specified on the cover page of this free writing prospectus.
- You are willing to accept individual exposure to each Underlying Index and that the performance of the Least Performing Underlying Index will not be offset or mitigated by the performance of the other Underlying Index.
- You understand and accept the risks associated with the Underlying Indices.
- You are willing to invest in securities that may be called early and you are otherwise willing to hold such securities to maturity.
- You are willing to assume our credit risk for all payments under the Notes, and understand that if we default on our obligations, you may not receive any amounts due to you, including any repayment of principal.

The Notes may not be suitable for you if, among other considerations:

- You do not fully understand the risks inherent in an investment in the Notes, including the risk of loss of your entire initial investment.
- You cannot tolerate a loss on your investment and require an investment designed to provide a full return of principal at maturity.
- You are not willing to make an investment that may have the same downside market risk as an investment in the equity securities composing the Least Performing Underlying Index.
- You do not believe either Underlying Index will close at or above its Initial Level on any one of the first two Observation Dates, or you believe an Underlying Index will close below its Downside Threshold on the final Observation Date, exposing you to the full downside performance of the Least Performing Underlying Index.
- You seek an investment that participates in the full appreciation in the levels of the Underlying Indices, and whose positive return is not limited to the applicable Call Return Rate.
- You cannot tolerate fluctuations in the price of the Notes prior to maturity that may be similar to or exceed the downside fluctuations of the Least Performing Underlying Index.
- You are unwilling to invest in the Notes based on Call Return Rate specified on the cover page of this free writing prospectus.
- You are unwilling to invest in the Notes based on the Downside Threshold specified on the cover page of this free writing prospectus.
- You are unwilling to accept individual exposure to each Underlying Index and that the performance of the Least Performing Underlying Index will not be offset or mitigated by the performance of the other Underlying Index.
- You seek guaranteed current income from this investment or prefer to receive the dividends paid on the securities

composing the Underlying Indices.

- You do not understand or accept the risks associated with the Underlying Indices.
- You are unable or unwilling to hold securities that may be called early, or you are otherwise unable or unwilling to hold such securities to maturity, or you seek an investment for which there will be an active secondary market for the Notes.
- You are not willing to assume our credit risk for all payments under the Notes, including any repayment of principal.

The suitability considerations identified above are not exhaustive. Whether or not the Notes are a suitable investment for you will depend on your individual circumstances, and you should reach an investment decision only after you and your investment, legal, tax, accounting, and other advisers have carefully considered the suitability of an investment in the Notes in light of your particular circumstances. You should also review carefully the "Key Risks" beginning on page 6 of this free writing prospectus for risks related to an investment in the Notes. In addition, you should review carefully the section below, "Information About the Underlying Indices," for more information about these indices.

Indicative Terms of the Notes[1]

Issuer:	Royal Bank of Canada
Principal Amount per Note:	$10 per Note
Term:[2]	Approximately three years, if not previously called
Underlying Indices:	The S&P 500® Index ("SPX") and the Russell 2000® Index ("RTY")
Automatic Call Feature:	The Notes will be called if the closing level of each Underlying Index (a) on any of the first two Observation Dates is at or above its Initial Level or (b) on the final Observation Date is at or above its Downside Threshold. If the Notes are called, we will pay you on the applicable Call Settlement Date a cash payment per $10 principal amount equal to the Call Price for the applicable Observation Date.
Observation Dates:[2]	The first Observation Date will occur on or about October 15, 2019; Observation Dates will occur annually thereafter on or about October 12, 2020, and October 12, 2021 (the "final Observation Date").
Call Settlement Dates:	Three (3) business days following the applicable Observation Date, except that the Call Settlement Date for the final Observation Date is the Maturity Date.
Call Price:	The Call Price will be calculated based on the following formula: $10 + ($10 x Call Return)
Call Return / Call Return Rate:	The Call Price will be based upon the Call Return. The Call Return increases the longer the Notes are outstanding and will be based on the Call Return Rate of 8.90% per annum. The Call Return will be a fixed amount based upon equal annual installments at the Call Return Rate, which is a per annum rate. The following table sets forth each Observation Date, each Call Settlement Date and the corresponding Call Price for the Notes.

Observation Dates	Call Settlement Dates	Call Price	Call Return Rate
October 15, 2019	October 18, 2018	$10.89	8.90%
October 12, 2020	October 15, 2020	$11.78	17.80%
October 12, 2021 (Final Observation Date)	October 15, 2021 (Maturity Date)	$12.67	26.70%

Payment at Maturity:	If the Notes are not called and, therefore, the Final Level of the Least Performing Underlying Index is less than its Downside Threshold, we will pay you a cash payment on the maturity date of less than the principal amount, if anything, resulting in a loss on your initial investment that is proportionate to the negative Underlying Return of the Least Performing Underlying Index, equal to: $10.00 + ($10.00 × Underlying Return of the Least Performing Underlying Index) You may lose a significant portion or all of your principal at maturity that is proportionate to the decline in the Least Performing Underlying Index, regardless of the performance of the other Underlying Index.

[1] Terms used in this free writing prospectus, but not defined herein, shall have the meanings ascribed to them in the prospectus or the prospectus supplement.

[2] Expected. In the event that we make any change to the expected Trade Date and Settlement Date, the Observation Dates (including the final Observation Date) and Maturity Date will be changed to ensure that the stated term of the Notes remains approximately the same.

Least Performing Underlying Index:	The Underlying Index with the lowest Underlying Return.
Underlying Returns:	With respect to each Underlying Index, $\frac{\text{Final Level} - \text{Initial Level}}{\text{Initial Level}}$
Downside Thresholds:	With respect to each Underlying Index, 70.00% of its Initial Level.
Initial Levels:	With respect to each Underlying Index, its closing level on October 10, 2018.
Final Levels:	With respect to each Underlying Index, its closing level on the Final Observation Date, as determined by the calculation agent.

Investment Timeline

October 10, 2018:	The Initial Level and Downside Threshold of each Underlying Index are determined.
Annually (beginning after one year):	The Notes will be called if the closing level of each Underlying Index (a) on any of the first two Observation Dates is equal to or greater than its Initial Level (b) on the final Observation Date is equal to or greater than its Downside Threshold. If the Notes are called, we will pay the Call Price for the applicable Observation Date, equal to the principal amount plus the applicable Call Return.
Maturity Date:	The Final Level of each Underlying Index is observed on the final Observation Date. If the Notes have not been called, and therefore, the Final Level of the Least Performing Underlying Index is less than its Downside Threshold, we will pay less than the principal amount, if anything, resulting in a loss on your initial investment proportionate to the decline of the Least Performing Underlying Index, for an amount equal to: $10 + ($10× Underlying Return of the Least Performing Underlying Index) per Note You may lose a significant portion or all of your principal at maturity that is proportionate to the decline in the Least Performing Underlying Index, regardless of the performance of the other Underlying Index.

INVESTING IN THE NOTES INVOLVES SIGNIFICANT RISKS. YOU MAY LOSE SOME OR ALL OF YOUR PRINCIPAL AMOUNT. YOU WILL BE EXPOSED TO THE MARKET RISK OF EACH UNDERLYING INDEX ON EACH OBSERVATION DATE, AND ANY DECLINE IN THE LEVEL OF ONE UNDERLYING INDEX MAY NEGATIVELY AFFECT YOUR RETURN AND WILL NOT BE OFFSET OR MITIGATED BY A LESSER DECLINE OR ANY POTENTIAL INCREASE IN THE LEVEL OF THE OTHER UNDERLYING INDEX. ANY PAYMENT ON THE NOTES, INCLUDING ANY REPAYMENT OF PRINCIPAL, IS SUBJECT TO OUR CREDITWORTHINESS. IF WE WERE TO DEFAULT ON OUR PAYMENT OBLIGATIONS, YOU MAY NOT RECEIVE ANY AMOUNTS OWED TO YOU UNDER THE NOTES AND YOU COULD LOSE YOUR ENTIRE INVESTMENT.

Key Risks

An investment in the Notes involves significant risks. Investing in the Notes is not equivalent to investing directly in the securities composing the Underlying Indices. In addition, your investment in the Notes entails other risks not associated with an investment in conventional debt securities. You should consider carefully the following discussion of risks before you decide that an investment in the Notes is suitable for you. We also urge you to consult your investment, legal, tax, accounting and other advisors before investing in the Notes.

Risks Relating to the Notes Generally

¨ Risk of Loss at Maturity. The Notes differ from ordinary debt securities in that we will not necessarily repay the full principal amount of the Notes at maturity. If the Notes are not called prior to the final Observation Date, we will repay you the principal amount of your Notes in cash only if the Final Level of each Underlying Index is greater than or equal to its Downside Threshold, and we will only make that payment at maturity. If the Notes are not called and, therefore, the Final Level of the Least Performing Underlying Index is less than its Downside Threshold, you will lose some or all of your initial investment in an amount proportionate to the decline in the level of the Least Performing Underlying Index.

¨ The contingent repayment of principal applies only at maturity. If the Notes are not automatically called, you should be willing to hold your Notes to maturity. If you are able to sell your Notes prior to maturity in the secondary market, if any, you may have to do so at a loss relative to your initial investment, even if the levels of both Underlying Indices are above their respective Downside Thresholds.

¨ No Periodic Interest Payments: We will not pay any interest with respect to the Notes.

¨ The Call Feature Limits Your Potential Return: The return potential of the Notes if the Notes are called as of any Observation Date is limited to the applicable Call Return, regardless of the appreciation of either Underlying Index, which may be significant. Therefore, you may receive a lower payment if the Notes are automatically called or at maturity, as the case may be, than you would have if you had invested directly in one or both of the Underlying Indices. In addition, because the Call Return increases the longer the Notes are outstanding, the Call Price payable on the first Observation Date is less than the Call Price payable on later Observation Dates.

¨ Reinvestment Risk: If your Notes are called early, the holding period over which you would receive the per annum Call Return Rate could be as little as one year. There is no guarantee that you would be able to reinvest the proceeds from an investment in the Notes in a comparable investment with a similar level of risk in the event the Notes are called prior to the Maturity Date.

¨ The Call Return Rate will reflect in part the volatility and correlation of the Underlying Indices and may not be sufficient to compensate you for the risk of loss at maturity. “Volatility” refers to the frequency and magnitude of changes in the levels of the Underlying Indices. The greater the volatility of the Underlying Indices, the more likely it is that the level of either Underlying Index could close below its Downside Threshold on the final Observation Date. This risk will generally be reflected in a higher Call Return Rate for the Notes than the interest rate payable on our conventional debt securities with a comparable term. In addition, lower correlation between the Underlying Indices can also indicate a greater likelihood of one Underlying Index closing below its Initial Level or Downside Threshold on an Observation Date. This greater risk will also be reflected in a higher Call Return Rate than on a security linked to Underlying Indices with a greater degree of correlation. However, while the Call Return Rate will be a fixed amount, the Underlying Indices’ volatility and correlation can change significantly over the term of the Notes. The levels of one or both of the Underlying Indices could fall sharply as of the final Observation Date, which could result in the Notes not being called and a significant loss of your principal amount.

¨ The Notes may be called early and are subject to reinvestment risk. The Notes will be called automatically if the closing levels of both Underlying Indices are equal to or greater than their respective Initial Levels on any Call Observation Date. In the event that the Notes are called prior to maturity, there is no guarantee that you will be able to reinvest the proceeds from an investment in the Notes at a comparable rate of return for a similar level of risk. To the extent you are able to reinvest your proceeds in an investment comparable to the Notes, you will incur transaction costs and the original issue price for such an investment is likely to include certain built in costs such as dealer discounts and hedging costs.

¨ The Notes are subject to our credit risk. The Notes are subject to our credit risk, and our credit ratings and credit spreads may adversely affect the market value of the Notes. Investors are dependent on our ability to pay all amounts due on the Notes, and therefore investors are subject to our credit risk and to changes in the market's view of our creditworthiness. Any decline in our credit ratings or increase in the credit spreads charged by the market for taking our credit risk is likely to adversely affect the value of the Notes. If we were to default on our payment obligations, you may not receive any amounts owed to you under the Notes and you could lose your entire investment.

¨ The initial estimated value of the Notes will be less than the price to the public. The initial estimated value for the Notes that is set forth on the cover page of this document, and that will be set forth in the final pricing supplement for the Notes, will be less than the public offering price you pay for the Notes, and does not represent a minimum price at which we, RBCCM or any of our other affiliates would be willing to purchase the Notes in any secondary market (if any exists) at any time. If you attempt to sell the Notes prior to maturity, their market value may be lower than the price you paid for them and the initial estimated value. This is due to, among other things, changes in the levels of the Underlying Indices, the borrowing rate we pay to issue securities of this kind, and the inclusion in the price to public of our estimated profit and the costs relating to our hedging of the Notes. These factors, together with various credit, market and economic factors over the term of the Notes, are expected to reduce the price at which you may be able to sell the Notes in any secondary market and will affect the value of the Notes in complex and unpredictable ways. Assuming no change in market conditions or any other relevant factors, the price, if any, at which you may be able to sell your Notes prior to maturity may be less than the price to public, as any such sale price would not be expected to include our estimated profit and the costs relating to our hedging of the Notes. In addition, any price at which you may sell the Notes is likely to reflect customary bid-ask spreads for similar trades. In addition to bid-ask spreads, the value of the Notes determined for any secondary market price is expected to be based on a secondary market rate rather than the internal borrowing rate used to price the Notes and determine the initial estimated value. As a result, the secondary market price will be less than if the internal borrowing rate was used. The Notes are not designed to be short-term trading instruments. Accordingly, you should be able and willing to hold your Notes to maturity.

¨ Our initial estimated value of the Notes is an estimate only, calculated as of the time the terms of the Notes are set. The initial estimated value of the Notes is based on the value of our obligation to make the payments on the Notes, together with the mid-market value of the derivative embedded in the terms of the Notes. See "Structuring the Notes" below. Our estimate is based on a variety of assumptions, including our credit spreads, expectations as to dividends, interest rates and volatility, and the expected term of the Notes. These assumptions are based on certain forecasts about future events, which may prove to be incorrect. Other entities may value the Notes or similar securities at a price that is significantly different than we do.

The value of the Notes at any time after the trade date will vary based on many factors, including changes in market conditions, and cannot be predicted with accuracy. As a result, the actual value you would receive if you sold the Notes in any secondary market, if any, should be expected to differ materially from the initial estimated value of your Notes and the amount that may be paid at maturity.

¨ You will not participate in any appreciation of the Underlying Indices, and any potential return on the Notes is limited. The return on the Notes is limited to the pre-specified Call Return Rate, regardless of the appreciation of the Underlying Indices. As a result, the return on an investment in the Notes could be less than the return on a direct investment in the Underlying Indices. Further, if the Notes are called due to the automatic call feature, you will not receive any other payments after the applicable Call Settlement Date. Since the Notes could be called as early as the first Observation Date, the total return on the Notes could be limited. On the other hand, if the Notes have not been previously called and if the level of an Underlying Index is less than its Initial Level and/or Downside Threshold, as the Maturity Date approaches and the remaining number of Observation Dates decreases, the Notes are less likely to be automatically called, as there will be a shorter period of time remaining for the level of that Underlying Index to increase to its Downside Threshold prior to maturity. If the Notes are not called, you will be subject to the Underlying Indices' risk of decline.

¨ If you sell the Notes prior to maturity, you may receive less than the principal amount. If the Notes are not automatically called, you should be willing to hold the Notes until maturity. If you are able to sell the Notes in the secondary market prior to maturity, you may have to sell them for a loss relative to the principal amount, even if the levels of the Underlying Indices are above their respective Initial Levels and/or Downside Thresholds. In addition, you will not receive the benefit of any contingent repayment of principal associated with the Downside Thresholds if you sell the Notes before the maturity date. The potential returns described in this document assume that the Notes, which are not designed to be short-term trading instruments, are held to maturity.

¨ Your return on the Notes may be lower than the return on a conventional debt security of comparable maturity. The return that you will receive on the Notes, which could be negative, may be less than the return you could earn on other investments. Your investment may not reflect the full opportunity cost to you when you take into account factors that affect the time value of money, such as inflation.

¨ Your return on the Notes will not reflect dividends on the equity securities composing the Underlying Indices. The return on the Notes will not reflect the return you would realize if you actually owned the equity securities composing the Underlying Indices and received the dividends paid on those equity securities. The Final Levels of both Underlying Indices and the determination of the amount to be paid at maturity or upon an automatic call will not take into consideration the value of those dividends.

¨ If the levels of the Underlying Indices change, the market value of the Notes may not change in the same manner. Owning the Notes is not the same as owning the securities composing the Underlying Indices. Accordingly, changes in the levels of the Underlying Indices may not result in a comparable change of the market value of the Notes. If the levels of the Underlying Indices on any trading day increase above their respective Initial Levels or Downside Threshold, the value of the Notes may not increase in a comparable manner, if at all. It is possible for the levels of the Underlying Indices to increase while the value of the Notes declines.

¨ The determination of the payments on the Notes, and whether they are subject to an automatic call, does not take into account all developments in the levels of the Underlying Indices. Changes in the levels of the Underlying Indices during the periods between each Observation Date may not be reflected in the determination as to whether the Notes will be called or the calculation of the amount payable, if any, at maturity. The calculation agent will determine whether the Notes are automatically called on any Observation Date by observing only the closing levels of the Underlying Indices on those dates. The calculation agent will calculate the payment at maturity by comparing only the closing level of the Least Performing Underlying Index on the final Observation Date relative to its Initial Level. No other levels will be taken into account. As a result, you may lose some or all of your principal amount even if the level of the Least Performing Underlying Index has risen at certain times during the term of the Notes before falling to a level below its Downside Threshold on the final Observation Date.

¨ The Notes are not designed to be short-term trading instruments. The price at which you will be able to sell the Notes to us or our affiliates prior to maturity, if at all, may be at a substantial discount from the principal amount of the Notes, even in cases where the closing levels of the Underlying Indices have appreciated after the date that the Initial Levels were determined. In addition, you will not receive the benefit of any contingent repayment of principal associated with the Downside Thresholds if you sell the Notes before the maturity date. The potential returns described in this document assume that the Notes, which are not designed to be short-term trading instruments, are held to maturity.

¨ You must rely on your own evaluation of the merits of an investment linked to the Underlying Indices. In the ordinary course of their business, our affiliates, or UBS or its affiliates, may have expressed views on expected movements in each of the Underlying Indices or the securities included in the Underlying Indices, and may do so in the future. These views or reports may be communicated to our respective clients and clients of our respective affiliates. However, these views are subject to change from time to time. Moreover, other professionals who transact business in markets relating to either Underlying Index, may at any time have significantly different views from those of ours, and those of UBS and its affiliates. For these reasons, you are encouraged to derive information concerning the Underlying Indices from multiple sources, and you should not rely solely on views expressed by us, UBS, or our respective affiliates.

¨ Your return on the Notes is not linked to a basket consisting of the Underlying Indices. Rather, it will be contingent upon the performance of each individual Underlying Index. Unlike an instrument with a return linked to a basket of indices or other underlying assets, in which risk is mitigated and diversified among all of the components of the basket, you will be exposed equally to the risks related to both of the Underlying Indices. Poor performance by either one of the Underlying Indices over the term of the Notes may negatively affect your return and will not be offset or mitigated by a positive performance by the other Underlying Index. For the Notes to be automatically called or to receive any contingent repayment of principal at maturity from us, both Underlying Indices must close above their Initial Levels or Downside Thresholds, as applicable, on the applicable Observation Date. In addition, if not called prior to maturity, you may incur a loss proportionate to the negative return of the Least Performing Underlying Index. Accordingly, your investment is subject to the market risk of each Underlying Index, which results in a higher risk of incurring a loss at maturity.

¨ Because the Notes are linked to the individual performance of more than one Underlying Index, it is more likely that one of the Underlying Indices will decrease in value below its Initial Level or its Downside Threshold, increasing the probability that the Notes will not be called and that you will lose some or all of your initial investment. The risk that the Notes will not be called and that you will lose some or all of your initial investment in the Notes is greater if you invest in the Notes as opposed to securities that are linked to the performance of a single Underlying Index if their terms are otherwise substantially similar. With a greater total number of Underlying Indices, it is more likely that an Underlying Index will be below its Initial Level or Downside Threshold on an Observation Date, and therefore it is more likely that the Notes will not be called and that at maturity you will receive an amount in cash which is worth less than your principal amount. In addition, the performances of a pair of Underlying Indices may be positively or negatively correlated, or may not be correlated at all. If the Underlying Indices are not correlated to each other or are negatively correlated, there is a greater potential for one of those Underlying Indices to close below its Initial Level or Downside Threshold, as applicable, on an Observation Date, respectively, and therefore the risk of the Notes not being called and that you will lose a portion of your principal at maturity.

It is impossible to predict what the correlations between the Underlying Indices will be over the term of the Notes. The Underlying Indices represent different equity markets and these different equity markets may not perform similarly over the term of the Notes. Although the correlation of the Underlying Indices' performance may change over the term of the Notes, the Call Return Rate is determined, in part, based on the Underlying Indices' performance calculated using our internal models at the time when the terms of the Notes are determined. As stated earlier, a higher Call Return Rate is generally associated with lower correlation of the Underlying Indices, which reflects a greater potential for the Notes not to be called and for a loss on your investment at maturity. See "Correlation of the Underlying Indices" below.

Risks Relating to Liquidity and Secondary Market Issues

¨ Secondary trading in the Notes may be limited. The Notes will not be listed on any securities exchange. RBCCM intends to offer to purchase the Notes in the secondary market, but is not required to do so. Even if there is a secondary market, it may not provide enough liquidity to allow you to trade or sell the Notes easily. Because other dealers are not likely to make a secondary market for the Notes, the price at which you may be able to trade your Notes is likely to depend on the price, if any, at which RBCCM is willing to buy the Notes.

¨ The terms of the Notes at issuance and their market value prior to maturity will be influenced by many unpredictable factors. Many economic and market factors will influence the terms of the Notes at issuance and their value prior to maturity. These factors are similar in some ways to those that could affect the value of a combination of instruments that might be used to replicate the payments on the Notes, including a combination of a bond with one or more options or other derivative instruments. For the market value of the Notes, we expect that, generally, the levels of the Underlying Indices on any day will affect the value of the Notes more than any other single factor. However, you should not expect the value of the Notes in the secondary market to vary in proportion to changes in the levels of the Underlying Indices. The value of the Notes will be affected by a number of economic and market factors that may either offset or magnify each other, including:

¨ the level of the Underlying Indices;
¨ whether the levels of the Underlying Indices are below their respective Initial Levels or the Downside Thresholds;
¨ the actual and expected volatility of the Underlying Indices;
¨ the expected correlation of the Underlying Indices;
¨ the time remaining to maturity of the Notes;
¨ the dividend rates on the securities composing the Underlying Indices;
¨ interest and yield rates in the market generally, as well as in the markets of the equity securities composing the Underlying Indices;
¨ a variety of economic, financial, political, regulatory or judicial events;

- the occurrence of certain events with respect to the Underlying Indices that may or may not require an adjustment to the terms of the Notes; and
- our creditworthiness, including actual or anticipated downgrades in our credit ratings.

Some or all of these factors will influence the terms of the Notes at issuance as well as the price you will receive if you choose to sell the Notes prior to maturity. The impact of any of the factors set forth above may enhance or offset some or all of any change resulting from another factor or factors. You may have to sell the Notes at a substantial discount from the principal amount if, for example, the level of one or both of the Underlying Indices is at, or not sufficiently above, its Downside Threshold.

Risks Relating to the Underlying Indices

- Changes that affect an Underlying Index will affect the market value of the Notes and the payments on the Notes. The policies of the applicable index sponsor concerning the calculation of each Underlying Index, additions, deletions or substitutions of the components of that Underlying Index and the manner in which changes affecting those components, such as stock dividends, reorganizations or mergers, may be reflected in the Underlying Index and, therefore, could affect the amounts payable on the Notes, and the market value of the Notes prior to maturity. The amounts payable on the Notes and their market value could also be affected if the index sponsor changes these policies, for example, by changing the manner in which it calculates the applicable Underlying Index, or if the index sponsor discontinues or suspends calculation or publication of that Underlying Index, in which case it may become difficult to determine the market value of the Notes.

¨ We have no affiliation with either index sponsor and will not be responsible for any actions taken by an index sponsor. Neither index sponsor is an affiliate of ours or will be involved in the offering of the Notes in any way. Consequently, we have no control of the actions of either index sponsor, including any actions of the type that might impact the value of the Notes. Neither index sponsor has any obligation of any sort with respect to the Notes. Thus, no index sponsor has any obligation to take your interests into consideration for any reason, including in taking any actions that might affect the value of the Notes. None of our proceeds from the issuance of the Notes will be delivered to either index sponsor.

¨ The historical performance of the Underlying Indices should not be taken as an indication of their future performance. The levels of the Underlying Indices will determine the amount to be paid on the Notes. The historical performance of each Underlying Index does not give an indication of its future performance. As a result, it is impossible to predict whether the level of the Underlying Indices will rise or fall during the term of the Notes. The level of each Underlying Index will be influenced by complex and interrelated political, economic, financial and other factors. The level of each Underlying Index may decrease such that you may not receive any return on your investment. There can be no assurance that the level of each Underlying Index will not decrease so that at maturity you will not lose some or all of your investment.

¨ An investment in Notes linked to the RTY is subject to risks associated in investing in stocks with a small market capitalization. The RTY consists of stocks issued by companies with relatively small market capitalizations. These companies often have greater stock price volatility, lower trading volume and less liquidity than large-capitalization companies. As a result, the level of the RTY may be more volatile than that of a market measure that does not track solely small-capitalization stocks. Stock prices of small-capitalization companies are also often more vulnerable than those of large-capitalization companies to adverse business and economic developments, and the stocks of small-capitalization companies may be thinly traded, and be less attractive to many investors if they do not pay dividends. In addition, small capitalization companies are often less well-established and less stable financially than large-capitalization companies and may depend on a small number of key personnel, making them more vulnerable to loss of those individuals. Small capitalization companies tend to have lower revenues, less diverse product lines, smaller shares of their target markets, fewer financial resources and fewer competitive strengths than large-capitalization companies. These companies may also be more susceptible to adverse developments related to their products or services.

Risks Relating to Hedging Activities and Conflicts of Interest

¨ We, UBS or our respective affiliates may have adverse economic interests to the holders of the Notes. RBCCM, UBS and our respective affiliates trade the securities represented by the Underlying Indices, and other financial instruments related to the Underlying Indices, on a regular basis, for their accounts and for other accounts under our or their management. UBS, RBCCM and these affiliates may also issue or underwrite or assist unaffiliated entities in the issuance or underwriting of other securities or financial instruments that relate to the Underlying Indices. To the extent that we, UBS or any of our respective affiliates serves as issuer, agent or underwriter for such securities or financial instruments, our or their interests with respect to such products may be adverse to those of the holders of the Notes. Any of these trading activities could potentially affect the performance of the Underlying Indices and, accordingly, could affect the value of the Notes, and the amounts, if any, payable on the Notes.

We, UBS or our respective affiliates may currently or from time to time engage in business with the issuers of the securities represented by the Underlying Indices, including extending loans to, or making equity investments in, or providing advisory services to them, including merger and acquisition advisory services. In the course of this business, we, UBS or our respective affiliates may acquire non-public information about these companies, and we will not disclose any such information to you. None of us, UBS or our respective affiliates makes any representation or warranty to any purchaser of the Notes with respect to any matters whatsoever relating to our business with the issuer of any security included in the Underlying Indices or future price movements of any such security.

Additionally, we, UBS or our respective affiliates may serve as issuer, agent or underwriter for additional issuances of securities with returns linked or related to changes in the level of one or more of the Underlying Indices. By introducing competing products into the marketplace in this manner, we could adversely affect the value of the Notes.

We may hedge our obligations under the Notes through certain affiliates, who would expect to make a profit on such hedge. We or our affiliates may adjust these hedges by, among other things, purchasing or selling those assets at any time, including around the time of each Observation Date, which could have an impact on the return of the Notes. Because hedging our obligations entails risk and may be influenced by market forces beyond our or our affiliates' control, such hedging may result in a profit that is more or less than expected, or it may result in a loss.

¨ The calculation agent will have significant discretion with respect to the Notes, which may be exercised in a manner that is adverse to your interests. Our wholly-owned subsidiary, RBCCM, will act as the calculation agent. The calculation agent will determine, among other things, the closing levels of the Underlying Indices on each Observation Date, if any; whether the Notes are subject to an automatic call; the Final Level for each Underlying Index; the Underlying Return for each Underlying Index; and the amounts, if any, that we will pay to you on the Notes. The calculation agent will also be responsible for determining whether a market disruption event has occurred. The calculation agent may exercise its discretion in a manner which reduces your return on the Notes. Since these determinations by the calculation agent may affect the payments on the Notes, the calculation agent may have a conflict of interest if it needs to make a determination of this kind.

¨ Market disruptions may adversely affect your return. The calculation agent may, in its sole discretion, determine that the markets have been affected in a manner that prevents it from properly determining the closing level of one or both of the Underlying Indices on any Observation Date or calculating the Underlying Return for each Underlying Index and the amount, if any, that we are required to pay you. These events may include disruptions or suspensions of trading in the markets as a whole. If the calculation agent, in its sole discretion, determines that any of these events prevents us or any of our affiliates from properly hedging our obligations under the Notes, it is possible that one or more of the Observation Dates and the maturity date will be postponed, and your return will be adversely affected. See "General Terms of the Notes—Market Disruption Events."

¨ Non-U.S. investors may be subject to certain additional risks. This document contains a general description of certain U.S. tax considerations relating to the Notes. In the event you are a non-U.S. investor, you should consult your tax advisors as to the consequences, under the tax laws of

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the country where you are a resident for tax purposes, of acquiring, holding and disposing of the Notes and receiving the payments that might be due under the Notes.

For a discussion of the Canadian federal income tax consequences of investing in the Notes, please see the section entitled "Tax Consequences—Canadian Taxation" in the accompanying prospectus. If you are not a Non-resident Holder (as defined in the section titled "Tax Consequences—Canadian Taxation" in the accompanying prospectus) or if you acquire the Notes in the secondary market, you should consult your tax advisors as to the consequences of acquiring, holding and disposing of the Notes and receiving the payments that may be due under the Notes.

- Significant aspects of the income tax treatment of an investment in the Notes may be uncertain. The tax treatment of an investment in the Notes is uncertain. We do not plan to request a ruling from the Internal Revenue Service or the Canada Revenue Agency regarding the tax treatment of an investment in the Notes, and the Internal Revenue Service, the Canada Revenue Agency or a court may not agree with the tax treatment described in this document.

The Internal Revenue Service has issued a notice indicating that it and the Treasury Department are actively considering whether, among other issues, a holder should be required to accrue ordinary income on a current basis irrespective of any Contingent Coupons. The outcome of this process is uncertain and could apply on a retroactive basis.

Please read carefully the sections entitled "U.S. Federal Income Tax Consequences" in this document, the section entitled "Tax Consequences" in the accompanying prospectus and the section entitled "Certain Income Tax Consequences" in the accompanying prospectus supplement. You should consult your tax advisor about your own tax situation.

Use of Proceeds and Hedging

The net proceeds we receive from the sale of the Notes will be used for general corporate purposes and, in part, by us or by one or more of our affiliates in connection with hedging our obligations under the Notes. The original issue price of the Notes includes the estimated cost of hedging our obligations under the Notes.

In anticipation of the sale of the Notes, we expect to enter into hedging transactions with one or more of our affiliates, involving the Underlying Indices or the securities composing the Underlying Indices, and/or related listed and/or over-the-counter derivative instruments prior to or on the trade date. From time to time, including around the time of each Observation Date and the maturity date, we and our respective affiliates may enter into additional hedging transactions or unwind those that we or they have entered into. In this regard, we and our respective affiliates may:

- acquire or dispose of investments relating to the Underlying Indices;
- acquire or dispose of long or short positions in listed or over-the-counter derivative instruments related to the Underlying Indices; or
- any combination of the above two.

We and our affiliates may acquire a long or short position in securities similar to the Notes from time to time and may, in our or their sole discretion, hold or resell those similar securities.

We and our affiliates may close out our or their hedges at any time during the term of the Notes, including on or before any Observation Date. That step may, for example, involve sales or purchases of over-the-counter derivative instruments linked to the Underlying Indices.

Hypothetical Examples

Hypothetical terms only. Actual terms may vary. See the cover page for actual offering terms.

The examples below illustrate the payment upon a call or at maturity for a $10 Note in a hypothetical offering of the Notes, with the following assumptions:*

Principal Amount:	$10
Term:	3 years (unless earlier called)
Hypothetical Initial Levels of Each Underlying Index:	100
Call Return Rate:	8.90% per annum
Observation Dates:	Annually (beginning one year after the Settlement Date).
Hypothetical Downside Thresholds of Each Underlying Index:	70.00 (which is 70% of its Initial Level)

*Not the actual Initial Levels or Downside Thresholds applicable to the Notes. The actual Initial Levels and Downside Thresholds for the Notes were based on the closing levels of the Underlying Indices on October 10, 2018, and are set forth on the cover page.

Example 1 - The closing level of each Underlying Index on the first Observation Date is at or above its Initial Level; the Notes are called

Closing Levels on the first Observation Date:	SPX: 105.00 (at or above its Initial Level) RTY: 105.00 (at or above its Initial Level)
Call Price (per $10.00):	$10.89

In this example, on the first Observation Date, because the closing level of each Underlying Index is at or above its Initial Level, the Notes would be called, and we would pay you on the applicable Call Settlement Date a total call price of $10.89 per $10.00 in principal amount (an 8.90% total return on the Notes).

Example 2 - The closing level of each Underlying Index on the final Observation Date is at or above its Downside Threshold; the Notes are called

Closing Level at first Observation Date:	SPX: 95.00 (less than its Initial Level) RTY: 95.00 (less than its Initial Level)
Closing Level at second Observation Date:	SPX: 90.00 (less than its Initial Level) RTY: 85.00 (less than its Initial Level)
Closing Level at final Observation Date (Final Level):	SPX: 105.00 (at or above its Downside Threshold) RTY: 80.00 (at or above its Downside Threshold)
Call Price (per $10.00):	$12.67

In this example, the closing levels of both Underlying Indices on each of the first two Observation Dates are less than their respective Initial Levels; as a result, the Notes are not automatically called following any of the first two Observation Dates.

On the final Observation Date, the closing level of the SPX is $105.00 and the closing level of the RTY is 80.00. Because the closing level of each Underlying Index is greater than its respective Downside Threshold, the Notes would be called on the final Observation Date and we would pay you on the applicable Call Settlement Date the call price of $12.67 per $10.00 stated principal amount (a 26.70% total return on the notes). The Notes will be automatically called even though the Final Level of one Underlying Index is less than its Initial Level.

Example 3 - Notes are NOT Called and the Final Level of the Least Performing Underlying Index is below Its Downside Threshold on the final Observation Date

Closing Level at first Observation Date:	SPX: 95.00 (less than its Initial Level) RTY: 95.00 (less than its Initial Level)
Closing Level at second Observation Date:	SPX: 90.00 (less than its Initial Level) RTY: 85.00 (less than its Initial Level)
Closing Level at final Observation Date (Final Level):	SPX: 101.00 (at or above its Downside Threshold) RTY: 50.00 (below its Downside Threshold)
Payment at Maturity (per $10.00):	$10.00 × (1 + Underlying Return of the Least Performing Underlying Index)

$10.00 × (1 - 50%)
$5.00

In this example, the closing level of each Underlying Index on each of the first two Observation Dates is less than its respective Initial Level; as a result the Notes are not automatically called following any of those Observation Dates. On the final Observation Date, the Underlying Return of the SPX is -25% and the Underlying Return of the RTY is -50%. As a result, the RTY is the Least Performing Underlying Index. In this example, because the Notes are not automatically called and, therefore, the Final Level of the Least Performing Underlying Index is less than its Downside Threshold, we will pay you at maturity $5.00 per $10.00 principal amount (a 50.00% loss on the Notes) and you would incur a loss at maturity equal to the full decline of the Least Performing Underlying Index. In this scenario, even though one of the Underlying Indices has a positive Underlying Return on the final Observation

Date, your payment at maturity will be based solely on the Least Performing Underlying Index and you would not benefit from the performance of the other Underlying Index.

What Are the Tax Consequences of the Notes?

U.S. Federal Income Tax Consequences

The following is a general description of the material U.S. tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes. Prospective purchasers of the Notes should consult their tax advisors as to the consequences under the tax laws of the country of which they are a resident for tax purposes and the tax laws of Canada and the U.S. of acquiring, holding and disposing of the Notes and receiving payments under the Notes. This summary is based upon the law as in effect on the date of this document and is subject to any change in law that may take effect after such date.

The following section supplements the discussion of U.S. federal income taxation in the accompanying prospectus and prospectus supplement. It applies only to those holders who are not excluded from the discussion of U.S. federal income taxation in the accompanying prospectus. It does not address the tax consequences applicable to any holders under Section 451(b) of the Internal Revenue Code. This discussion applies only to U.S. holders and non-U.S. holders that will purchase the Notes upon original issuance and will hold the Notes as capital assets for U.S. federal income tax purposes. In addition, the discussion below assumes that an investor in the Notes will be subject to a significant risk that it will lose a significant amount of its investment in the Notes.

You should consult your tax advisor concerning the U.S. federal income tax and other tax consequences of your investment in the Notes in your particular circumstances, including the application of state, local or other tax laws and the possible effects of changes in federal or other tax laws.

NO STATUTORY, JUDICIAL OR ADMINISTRATIVE AUTHORITY DIRECTLY DISCUSSES HOW THE NOTES SHOULD BE TREATED FOR U.S. FEDERAL INCOME TAX PURPOSES. AS A RESULT, THE U.S. FEDERAL INCOME TAX CONSEQUENCES OF AN INVESTMENT IN THE NOTES ARE UNCERTAIN. BECAUSE OF THE UNCERTAINTY, YOU SHOULD CONSULT YOUR TAX ADVISOR IN DETERMINING THE U.S. FEDERAL INCOME TAX AND OTHER TAX CONSEQUENCES OF YOUR INVESTMENT IN THE NOTES, INCLUDING THE APPLICATION OF STATE, LOCAL OR OTHER TAX LAWS AND THE POSSIBLE EFFECTS OF CHANGES IN FEDERAL OR OTHER TAX LAWS.

We will not attempt to ascertain whether the issuer of any of the component stocks included in any Underlying Index would be treated as a "passive foreign investment company" within the meaning of Section 1297 of the Internal Revenue Code or a "U.S. real property holding corporation" within the meaning of Section 897 of the Internal Revenue Code. If the issuer of one or more of such stocks were so treated, certain adverse U.S. federal income tax consequences could possibly apply. You should refer to any available information filed with the SEC and other authorities by the issuers of the component stock included in any Underlying Index and consult your tax advisor regarding the possible consequences to you in this regard, if any.

In the opinion of our counsel, Morrison & Foerster LLP, it would generally be reasonable to treat a Note with terms described in this document as a callable pre-paid cash-settled derivative contract linked to the Underlying Index for U.S. federal income tax purposes, and the terms of the Notes require a holder and us (in the absence of a change in law or an administrative or judicial ruling to the contrary) to treat the Notes for all tax purposes in accordance with such characterization. If the Notes are so treated, a U.S. holder should generally recognize capital gain or loss upon the sale or maturity of the Notes in an amount equal to the difference between the amount a holder receives at such time and the holder's tax basis in the Notes. Capital gain recognized by an individual U.S. holder is generally taxed at preferential rates where the property is held for more than one year and is generally taxed at ordinary income rates where the property is held for one year or less. The deductibility of capital losses is subject to limitations. The following discussion assumes that the treatment described in this paragraph is proper and will be respected.

If the Notes are treated as described above, a U.S. holder should generally recognize capital gain or loss upon the call, sale or maturity of the Notes in an amount equal to the difference between the amount a holder receives at such time and the holder's tax basis in the Notes. In general, a U.S. holder's tax basis in the Notes will be equal to the price the holder paid for the Notes. The capital loss treatment of any loss recognized upon the sale, exchange or maturity of the Notes, could result in adverse tax consequences to a holder because the deductibility of capital losses is subject to limitations.

Alternative Treatments. Alternative tax treatments of the Notes are also possible and the Internal Revenue Service might assert that a treatment other than that described above is more appropriate. For example, it would also be possible to treat the Notes, and the Internal Revenue Service might assert that the Notes should be treated, as a single debt instrument.

Because of the absence of authority regarding the appropriate tax characterization of the securities, it is also possible that the Internal Revenue Service could seek to characterize the securities in a manner that results in other tax consequences that are different from those described above. For example, the Internal Revenue Service could possibly assert that any gain or loss that a holder may recognize upon the sale or maturity of the securities should be treated as ordinary gain or loss.

Because the Notes have a term that exceeds one year, such a debt instrument would be subject to the special tax rules governing contingent payment debt instruments. If the Notes are so treated, a holder would generally be required to accrue interest income over the term of the Notes based upon the yield at which we would issue a non-contingent fixed-rate debt instrument with other terms and conditions similar to the Notes. In addition, any gain a holder might recognize upon the call, sale or maturity of the Notes would be ordinary income and any loss recognized by a holder at such time would generally be ordinary loss to the extent of interest that same holder included in income in the current or previous taxable years in respect of the Notes, and thereafter, would be capital loss.

Because of the absence of authority regarding the appropriate tax characterization of the Notes, it is also possible that the Internal Revenue Service could seek to characterize the Notes in a manner that results in other tax consequences that are different from those described above. For example, the Internal Revenue Service could possibly assert that any gain or loss that a holder may recognize upon the call, sale or maturity of the Notes should be treated as ordinary gain or loss.

The Internal Revenue Service has released a notice that may affect the taxation of holders of the Notes. According to the notice, the Internal Revenue Service and the U.S. Treasury Department are actively considering whether the holder of an instrument similar to the Notes should be required to accrue ordinary income on a current basis. It is not possible to determine what guidance they will ultimately issue, if any. It is possible, however, that under such guidance, holders of the Notes will ultimately be required to accrue income currently and this could be applied on a retroactive basis.

The Internal Revenue Service and the U.S. Treasury Department are also considering other relevant issues, including whether additional gain or loss

from such instruments should be treated as ordinary or capital and whether the special “constructive ownership rules” of Section 1260 of the Internal Revenue Code, which very generally can operate to recharacterize certain long-term capital gains as ordinary income and impose an interest charge, might be applied to such instruments. Holders are urged to consult their tax advisors concerning the significance, and the potential impact, of the above considerations.
We intend to treat the Notes for U.S. federal income tax purposes in accordance with the treatment described in this document unless and until such time as the U.S. Treasury Department and Internal Revenue Service determine that some other treatment is more appropriate.
Backup Withholding and Information Reporting. Payments made with respect to the Notes and proceeds from the sale of the Notes may be subject to a backup withholding tax unless, in general, the holder complies with certain procedures or is an exempt recipient. Any amounts so withheld generally will be refunded by the Internal Revenue Service or allowed as a credit against the holder's U.S. federal income tax liability, provided the holder makes a timely filing of an appropriate tax return or refund claim to the Internal Revenue Service.
Reports will be made to the Internal Revenue Service and to holders that are not exempted from the reporting requirements.
Non-U.S. Holders. The following discussion applies to non-U.S. holders of the Notes. A non-U.S. holder is a beneficial owner of the Notes that, for U.S. federal income tax purposes, is a non-resident alien individual, a foreign corporation, or a foreign estate or trust.
Except as discussed below, a non-U.S. holder will generally not be subject to U.S. federal income or withholding tax on any gain upon the call, sale or maturity of the Notes, provided that (i) the holder complies with any applicable certification requirements (which certification may generally be made on a Form W-8BEN or Form W-8BEN-E, or a substitute or successor form), (ii) the payment is not effectively connected with the conduct by the holder of a U.S. trade or business, and (iii) if the holder is a non-resident alien individual, such holder is not present in the U.S. for 183 days or more during the taxable year of the call, sale or maturity of the Notes. In the case of (ii) above, the holder generally would be subject to U.S. federal income tax with respect to any income or gain in the same manner as if the holder were a U.S. holder and, in the case of a holder that is a corporation, the holder may also be subject to a branch profits tax equal to 30% (or such lower rate provided by an applicable U.S. income tax treaty) of a portion of its earnings and profits for the taxable year that are effectively connected with its conduct of a trade or business in the U.S., subject to certain adjustments. Payments made to a non-U.S. holder may be subject to information reporting and to backup withholding unless the holder complies with applicable certification and identification requirements as to its foreign status.
As discussed above, alternative characterizations of the Notes for U.S. federal income tax purposes are possible. Should an alternative characterization, by reason of change or clarification of the law, by regulation or otherwise, cause payments as to the Notes to become subject to withholding tax in addition to the withholding tax described above, we will withhold tax at the applicable statutory rate. The Internal Revenue Service has also indicated that it is considering whether income in respect of instruments such as the Notes should be subject to withholding tax. Prospective investors should consult their own tax advisors in this regard.
Under Section 871(m) of the Code, a “dividend equivalent” payment is treated as a dividend from sources within the United States. Such payments generally would be subject to a 30% U.S. withholding tax if paid to a non-U.S. holder. Under U.S. Treasury Department regulations, payments (including deemed payments) with respect to equity-linked instruments (“ELIs”) that are “specified ELIs” may be treated as dividend equivalents if such specified ELIs reference an interest in an “underlying security,” which is generally any interest in an entity taxable as a corporation for U.S. federal income tax purposes if a payment with respect to such interest could give rise to a U.S. source dividend. However, the Internal Revenue Service has issued guidance that states that the U.S. Treasury Department and the Internal Revenue Service intend to amend the effective dates of the U.S. Treasury Department regulations to provide that withholding on dividend equivalent payments will not apply to specified ELIs that are not delta-one instruments and that are issued before January 1, 2021. Based on our determination that the Notes are not delta-one instruments, non-U.S. holders should not be subject to withholding on dividend equivalent payments, if any, under the Notes. However, it is possible that the Notes could be treated as deemed reissued for U.S. federal income tax purposes upon the occurrence of certain events affecting the Underlying Indices or the Notes (for example, upon an Underlying Index rebalancing), and following such occurrence the Notes could be treated as subject to withholding on dividend equivalent payments. Non-U.S. holders that enter, or have entered, into other transactions in respect of the Underlying Indices or the Notes

should consult their tax advisors as to the application of the dividend equivalent withholding tax in the context of the Notes and their other transactions. If any payments are treated as dividend equivalents subject to withholding, we (or the applicable withholding agent) would be entitled to withhold taxes without being required to pay any additional amounts with respect to amounts so withheld.

Individual holders that own "specified foreign financial assets" may be required to include certain information with respect to such assets with their U.S. federal income tax return. You are urged to consult your own tax advisor regarding such requirements with respect to the Notes.

Foreign Account Tax Compliance Act. The Foreign Account Tax Compliance Act ("FATCA") imposes a 30% U.S. withholding tax on certain U.S. source payments of interest (and original issue discount), dividends, or other fixed or determinable annual or periodical gain, profits, and income, and on the gross proceeds from a disposition of property of a type which can produce U.S. source interest or dividends ("Withholdable Payments"), if paid to a foreign financial institution (including amounts paid to a foreign financial institution on behalf of a holder), unless such institution enters into an agreement with the U.S. Treasury Department to collect and provide to the U.S. Treasury Department certain information regarding U.S. financial account holders, including certain account holders that are foreign entities with U.S. owners, with such institution, or otherwise complies with the legislation. In addition, the Notes may constitute a "financial account" for these purposes and, thus, be subject to information reporting requirements pursuant to FATCA. FATCA also generally imposes a withholding tax of 30% on Withholdable Payments made to a non-financial foreign entity unless such entity provides the withholding agent with a certification that it does not have any substantial U.S. owners or a certification identifying the direct and indirect substantial U.S. owners of the entity. Under certain circumstances, a holder may be eligible for refunds or credits of such taxes.

The U.S. Treasury Department and the Internal Revenue Service have announced that withholding on payments of gross proceeds from a sale or redemption of the Notes will only apply to payments made after December 31, 2018. If we determine withholding is appropriate with respect to the Notes, we will withhold tax at the applicable statutory rate, and we will not pay any additional amounts in respect of such withholding. Therefore, if such withholding applies, any payments on the Notes will be significantly less than what you would have otherwise received. Foreign financial institutions and non-financial foreign entities located in jurisdictions that have an intergovernmental agreement with the United States governing FATCA may be subject to different rules. Prospective investors are urged to consult with their own tax advisors regarding the possible implications of FATCA on their investment in the Notes.

Canadian Federal Income Tax Consequences

For a discussion of the material Canadian federal income tax consequences relating to an investment in the Notes, please see the section entitled "Tax Consequences—Canadian Taxation" in the accompanying prospectus, which you should carefully review prior to investing in the Notes.

Information About the Underlying Indices

We have derived all information contained in this document regarding each of the Underlying Indices, including, without limitation, its make up, method of calculation, and changes in its components, from publicly available sources. The information reflects the policies of, and is subject to change by, the applicable index sponsor. Each index sponsor, which owns the copyright and all other rights to the applicable Underlying Index, has no obligation to continue to publish, and may discontinue publication of, that Underlying Index. The consequences of an index sponsor discontinuing publication of the applicable Underlying Index are discussed below under the heading "General Terms of the Notes—Discontinuation of an Underlying Index; Alteration of Method of Calculation." None of us, UBS or RBCCM accepts any responsibility for the calculation, maintenance or publication of any Underlying Index or any successor index.

The S&P 500® Index

The SPX is intended to provide an indication of the pattern of common stock price movement in the large capitalization segment of the U.S. equity market. The calculation of the level of the SPX is based on the relative value of the aggregate market value of the common stocks of 500 companies as of a particular time compared to the aggregate average market value of the common stocks of 500 similar companies during the base period of the years 1941 through 1943.

The index sponsor calculates the SPX by reference to the prices of the constituent stocks of the SPX without taking account of the value of dividends paid on those stocks. As a result, the return on the Notes will not reflect the return you would realize if you actually owned the SPX constituent stocks and received the dividends paid on those stocks.

Computation of the SPX

While the index sponsor currently employs the following methodology to calculate the SPX, no assurance can be given that the index sponsor will not modify or change this methodology in a manner that may affect the Payment at Maturity.

Historically, the market value of any component stock of the SPX was calculated as the product of the market price per share and the number of then outstanding shares of such component stock. In March 2005, the index sponsor began shifting the SPX halfway from a market capitalization weighted formula to a float-adjusted formula, before moving the SPX to full float adjustment on September 16, 2005. The index sponsor's criteria for selecting stocks for the SPX did not change with the shift to float adjustment. However, the adjustment affects each company's weight in the SPX.

Under float adjustment, the share counts used in calculating the SPX reflect only those shares that are available to investors, not all of a company's outstanding shares. Float adjustment excludes shares that are closely held by control groups, other publicly traded companies or government agencies.

In September 2012, all shareholdings representing more than 5% of a stock's outstanding shares, other than holdings by "block owners," were removed from the float for purposes of calculating the SPX. Generally, these "control holders" will include officers and directors, private equity, venture capital and special equity firms, other publicly traded companies that hold shares for control, strategic partners, holders of restricted shares, ESOPs, employee and family trusts, foundations associated with the company, holders of unlisted share classes of stock, government entities at all levels (other than government retirement/pension funds) and any individual person who controls a 5% or greater stake in a company as reported in regulatory filings. However, holdings by block owners, such as depositary banks, pension funds, mutual funds and ETF providers, 401(k) plans of the company, government retirement/pension funds, investment funds of insurance companies, asset managers and investment funds, independent foundations and savings and investment plans, will ordinarily be considered part of the float.

Treasury stock, stock options, restricted shares, equity participation units, warrants, preferred stock, convertible stock, and rights are not part of the float. Shares held in a trust to allow investors in countries outside the country of domicile, such as depositary shares and Canadian exchangeable shares are normally part of the float unless those shares form a control block.

For each stock, an investable weight factor ("IWF") is calculated by dividing the available float shares by the total shares outstanding. Available float shares are defined as the total shares outstanding less shares held by control holders. This calculation is subject to a 5% minimum threshold for control blocks. For example, if a company's officers and directors hold 3% of the company's shares, and no other control group holds 5% of the company's shares, the index sponsor would assign that company an IWF of 1.00, as no control group meets the 5% threshold. However, if a company's officers and directors hold 3% of the company's shares and another control group holds 20% of the company's shares, the index sponsor would assign an IWF of 0.77, reflecting the fact that 23% of the company's outstanding shares are considered to be held for control. As of July 31, 2017, companies with multiple share class lines are no longer eligible for inclusion in the SPX. Constituents of the SPX prior to July 31, 2017 with multiple share class lines will be grandfathered in and continue to be included in the SPX. If a constituent company of the SPX reorganizes into a multiple share class line structure, that company will remain in the SPX at the discretion of the S&P Index Committee in order to minimize turnover

The SPX is calculated using a base-weighted aggregate methodology. The level of the SPX reflects the total market value of all 500 component stocks relative to the base period of the years 1941 through 1943. An indexed number is used to represent the results of this calculation in order to make the level easier to work with and track over time. The actual total market value of the component stocks during the base period of the years 1941 through 1943 has been set to an indexed level of 10. This is often indicated by the notation 1941- 43 = 10. In practice, the daily calculation of the SPX is computed by dividing the total market value of the component stocks by the "index divisor." By itself, the index divisor is an arbitrary number. However, in the context of the calculation of the SPX, it serves as a link to the original base period level of the SPX. The index divisor keeps the SPX comparable over time and is the manipulation point for all adjustments to the SPX, which is index maintenance.

Index Maintenance

Index maintenance includes monitoring and completing the adjustments for company additions and deletions, share changes, stock splits, stock dividends, and stock price adjustments due to company restructuring or spinoffs. Some corporate actions, such as stock splits and stock dividends, require changes in the common shares outstanding and the stock prices of the companies in the SPX, and do not require index divisor adjustments.

To prevent the level of the SPX from changing due to corporate actions, corporate actions which affect the total market value of the SPX require an index divisor adjustment. By adjusting the index divisor for the change in market value, the level of the SPX remains constant and does not reflect the corporate actions of individual companies in the SPX. Index divisor adjustments are made after the close of trading and after the calculation of the index closing level.

Changes in a company's shares outstanding and IWF due to its acquisition of another public company are made as soon as reasonably possible. At S&P's discretion, de minimis merger and acquisition share changes are accumulated and implemented with the quarterly share rebalancing.

All other changes of less than 5% are accumulated and made quarterly on the third Friday of March, June, September, and December.

Changes in a company's total shares outstanding of 5% or more due to public offerings are made as soon as reasonably possible. Other changes of 5% or more (for example, due to tender offers, Dutch auctions, voluntary exchange offers, company stock repurchases, private placements, acquisitions of private companies or non-index companies that do not trade on a major exchange, redemptions, exercise of options, warrants, conversion of preferred stock, notes, debt, equity participations, at-the-market stock offerings or other recapitalizations) are made weekly, and are generally announced on Fridays for implementation after the close of trading the following Friday (one week later). If a 5% or more share change causes a company's IWF to change by five percentage points or more, the IWF is updated at the same time as the share change. IWF changes resulting from partial tender offers are considered on a case-by-case basis.

License Agreement

S&P® is a registered trademark of Standard & Poor's Financial Services LLC ("S&P") and Dow Jones® is a registered trademark of Dow Jones Trademark Holdings LLC ("Dow Jones"). These trademarks have been licensed for use by S&P Dow Jones Indices LLC. "Standard & Poor's®," "S&P 500®" and "S&P®" are trademarks of S&P. These trademarks have been sublicensed for certain purposes by us. The SPX is a product of S&P Dow Jones Indices LLC and/or its affiliates and has been licensed for use by us.

The Notes are not sponsored, endorsed, sold or promoted by S&P Dow Jones Indices LLC, Dow Jones, S&P or any of their respective affiliates (collectively, "S&P Dow Jones Indices"). S&P Dow Jones Indices make no representation or warranty, express or implied, to the holders of the Notes or any member of the public regarding the advisability of investing in securities generally or in the Notes particularly or the ability of the SPX to track general market performance. S&P Dow Jones Indices' only relationship to us with respect to the SPX is the licensing of the SPX and certain trademarks, service marks and/or trade names of S&P Dow Jones Indices and/or its third party licensors. The SPX is determined, composed and calculated by S&P Dow Jones Indices without regard to us or the Notes. S&P Dow Jones Indices have no obligation to take our needs or the needs of holders of the Notes into consideration in determining, composing or calculating the SPX. S&P Dow Jones Indices are not responsible for and have not participated in the determination of the prices, and amount of the Notes or the timing of the issuance or sale of the Notes or in the determination or calculation of the equation by which the Notes are to be converted into cash. S&P Dow Jones Indices have no obligation or liability in connection with the administration, marketing or trading of the Notes. There is no assurance that investment products based on the SPX will accurately track index performance or provide positive investment returns. S&P Dow Jones Indices LLC and its subsidiaries are not investment advisors. Inclusion of a security or futures contract within an index is not a recommendation by S&P Dow Jones Indices to buy, sell, or hold such security or futures contract, nor is it considered to be investment advice. Notwithstanding the foregoing, CME Group Inc. and its affiliates may independently issue and/or sponsor financial products unrelated to the Notes currently being issued by us, but which may be similar to and competitive with the Notes. In addition, CME Group Inc. and its affiliates may trade financial products which are linked to the performance of the SPX. It is possible that this trading activity will affect the value of the Notes.

S&P DOW JONES INDICES DO NOT GUARANTEE THE ADEQUACY, ACCURACY, TIMELINESS AND/OR THE COMPLETENESS OF THE SPX OR ANY DATA RELATED THERETO OR ANY COMMUNICATION, INCLUDING BUT NOT LIMITED TO, ORAL OR WRITTEN COMMUNICATION (INCLUDING ELECTRONIC COMMUNICATIONS) WITH RESPECT THERETO. S&P DOW JONES INDICES SHALL NOT BE SUBJECT TO ANY DAMAGES OR LIABILITY FOR ANY ERRORS, OMISSIONS, OR DELAYS THEREIN. S&P DOW JONES INDICES MAKE NO EXPRESS OR IMPLIED WARRANTIES, AND EXPRESSLY DISCLAIMS ALL WARRANTIES, OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE OR AS TO

RESULTS TO BE OBTAINED BY US, HOLDERS OF THE NOTES, OR ANY OTHER PERSON OR ENTITY FROM THE USE OF THE SPX OR WITH RESPECT TO ANY DATA RELATED THERETO. WITHOUT LIMITING ANY OF THE FOREGOING, IN NO EVENT WHATSOEVER SHALL S&P DOW JONES INDICES BE LIABLE FOR ANY INDIRECT, SPECIAL, INCIDENTAL, PUNITIVE, OR CONSEQUENTIAL DAMAGES INCLUDING BUT NOT LIMITED TO, LOSS OF PROFITS, TRADING LOSSES, LOST TIME OR GOODWILL, EVEN IF THEY HAVE BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES, WHETHER IN CONTRACT, TORT, STRICT LIABILITY, OR OTHERWISE. THERE ARE NO THIRD PARTY BENEFICIARIES OF ANY AGREEMENTS OR ARRANGEMENTS BETWEEN S&P DOW JONES INDICES AND US, OTHER THAN THE LICENSORS OF S&P DOW JONES INDICES.

Historical Information

The following table sets forth the quarterly high, low and period-end closing levels of the SPX, as reported by Bloomberg L.P. The historical performance of the SPX should not be taken as an indication of future performance. We cannot give you assurance that the performance of the SPX will result in the return of any of your initial investment.

Quarter Begin	Quarter End	Quarterly Closing High	Quarterly Closing Low	Quarterly Period-End Close		
1/1/2008 ited or expired	(100,000)		9.03			
Balance, March 31, 2016	475,626		6.18		4.18	$220,100
Exercisable at March 31, 2016	291,667		6.47		1.18	182,900

Aggregate intrinsic value in the table above represents the total pretax intrinsic value (the difference between our closing stock price on March 31, 2016 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the holder had all holders exercised their options on March 31, 2016. Total intrinsic value of options exercised during the three months ended March 31, 2016 and 2015 was approximately $1.6 million and $1.9 million, respectively. As of March 31, 2016, total unrecognized stock-based compensation expense related to non-vested employee option awards was $557,000, which is expected to be recognized over a weighted average period of approximately 3.7 years.

Restricted Stock Awards ("RSA's")

The 2006 Plan permits the award of restricted stock. As of March 31, 2016, we have issued a total of 4,186,322 RSA's of which 610,962 were unvested.

The following summarizes all unvested RSA's activities during the three months ended March 31, 2016:

	RSA's	**Weighted-Average Remaining Contractual Term (Years)**	**Weighted-Average Fair Value**
RSA's outstanding at December 31, 2015	771,342		$ 5.17
Changes during the period			
Granted	725,114		$ 5.90
Vested	(885,492)		$ 5.18
RSA's unvested at March 31, 2016	610,962	1.23	$ 6.02

We determine the fair value of all RSA’s based on the closing price of our common stock on the award date.

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Other stock bonus awards

The Restated Plan also permits the award of stock bonuses not subject to any future service period. These awards are valued and expensed based on the closing price of our common stock on the date of award. During the quarter ended March 31, 2016 no stock bonus awards were issued under the Restated Plan.

Plan Summary

In sum, of the 12,000,000 shares of common stock reserved for issuance under the Restated Plan, at March 31, 2016, we had issued 11,955,698 total shares between options, RSA's and other stock awards. With options cancelled and RSA's forfeited amounting to 2,925,009 and 59,053 shares, respectively, there remain 3,028,364 shares available under the Restated Plan for future issuance.

NOTE 9 – FAIR VALUE MEASUREMENTS

FAIR VALUE MEASUREMENTS – Assets and liabilities subject to fair value measurements are required to be disclosed within a fair value hierarchy. The fair value hierarchy ranks the quality and reliability of inputs used to determine fair value. Accordingly, assets and liabilities carried at, or permitted to be carried at, fair value are classified within the fair value hierarchy in one of the following categories based on the lowest level input that is significant to a fair value measurement:

Level 1—Fair value is determined by using unadjusted quoted prices that are available in active markets for identical assets and liabilities.

Level 2—Fair value is determined by using inputs other than Level 1 quoted prices that are directly or indirectly observable. Inputs can include quoted prices for similar assets and liabilities in active markets or quoted prices for identical assets and liabilities in inactive markets. Related inputs can also include those used in valuation or other pricing models such as interest rates and yield curves that can be corroborated by observable market data.

Level 3—Fair value is determined by using inputs that are unobservable and not corroborated by market data. Use of these inputs involves significant and subjective judgment.

The table below summarizes the estimated fair value of our long-term debt as follows (in thousands):

	As of March 31, 2016				
	Level 1	Level 2	Level 3	Total Fair Value	Total Face Value
First Lien Term Loans	$–	$433,724	$ –	$433,724	$444,845

Second Lien Term Loans	$–	$162,900	$ –	162,900	$180,000

	As of December 31, 2015				
	Level 1	Level 2	Level 3	Total	Total Face Value
First Lien Term Loans	$–	$444,258	$ –	$444,258	$451,023
Second Lien Term Loans	–	173,700	–	173,700	180,000

The carrying value of our revolving credit facility at March 31, 2016 was $16.3 million, which approximated its fair value. There was no balance outstanding under the revolving credit facility at December 31, 2015.

We consider the carrying amounts of cash and cash equivalents, receivables, other current assets and current liabilities to approximate their fair value because of the relatively short period of time between the origination of these instruments and their expected realization or payment. Additionally, we consider the carrying amount of our capital lease obligations to approximate their fair value because the weighted average interest rate used to formulate the carrying amounts approximates current market rates.

NOTE 10 – SUBSEQUENT EVENTS

On April 18, 2016, RadNet formed Glendale Advanced Imaging LLC, and on May 9, 2016, utilized the LLC to enter into a joint venture with Dignity Health, a California nonprofit public benefit corporation. Total agreed combined contribution to the venture is expected to be $3.9 million of cash and assets, with RadNet contributing $2.2 million (a 55% stake) and Dignity Health contributing $1.7 million (a 45% stake). The transaction is scheduled to close June 1, 2016. Initial operations at two imaging centers in Glendale, CA are expected to begin by the end of the second quarter of 2016. The venture will explore opportunities to expand both geographically and in its medical service offerings.

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

The following discussion of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes and other financial information appearing elsewhere in this quarterly report.

Forward-Looking Statements

This quarterly report on Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements reflect current views about future events and are based on our currently available financial, economic and competitive data and on current business plans. Actual events or results may differ materially depending on risks and uncertainties that may affect our operations, markets, services, prices and other factors.

In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expect," "intend, "plan," "anticipate," "believe," "estimate," "predict," "potential," "continue," "assumption" or the negative of these terms or ot comparable terminology. Statements in this quarterly report concerning our ability to successfully acquire and integrate new operations, to grow our contract management business, our financial guidance, our future cost saving efforts, our increased business from new equipment or operations and our ability to finance our operations and repay our outstanding indebtedness, including our increased amortization payments, are forward-looking statements.

The factors included in "Risk Factors," in our annual report on Form 10-K for the fiscal year ended December 31, 2015, as amended or supplemented by the information in Part II – Item 1A below, among others, could cause our actual results to differ materially from those expressed in, or implied by, the forward-looking statements. You should consider the inherent limitations on, and risks associated with, forward-looking statements and not unduly rely on the accuracy of predictions contained in such forward-looking statements. These forward-looking statements speak only as of the date when they are made. Except as required under the federal securities laws or by the rules and regulations of the Securities and Exchange Commission, we do not undertake any responsibility to release publicly any revisions to these forward-looking statements to take into account events or circumstances that occur after the date of those statements. Additionally, we do not undertake any responsibility to update you on the occurrence of any unanticipated events which may cause actual results to differ from those expressed or implied by the forward-looking statements contained in this quarterly report.

Overview

We are a national provider of freestanding, fixed-site outpatient diagnostic imaging services. At March 31, 2016, we operated directly or indirectly through joint ventures with hospitals, 309 centers located in California, Delaware, Florida, Maryland, New Jersey, New York and Rhode Island. Our centers provide physicians with imaging capabilities to facilitate the diagnosis and treatment of diseases and disorders. Our services include magnetic resonance imaging (MRI), computed tomography (CT), positron emission tomography (PET), nuclear medicine, mammography, ultrasound, diagnostic radiology (X-ray), fluoroscopy and other related procedures. The vast majority of our centers offer multi-modality imaging services. Our multi-modality strategy diversifies revenue streams, reduces exposure to reimbursement changes and provides patients and referring physicians one location for multiple procedures. Our operations comprise a single segment for financial reporting purposes.

We seek to develop leading positions in regional markets in order to leverage operational efficiencies. Our scale and density within selected geographies provides close, long-term relationships with key payors, radiology groups and referring physicians. Each of our facility managers is responsible for managing relationships with local physicians and payors, meeting our standards of patient service and maintaining profitability. We provide corporate training programs, standardized policies and procedures and sharing of best practices among the physicians in our regional networks.

We derive substantially all of our revenue, directly or indirectly, from fees charged for the diagnostic imaging services performed at our facilities. For the three months ended March 31, 2016 and 2015, we performed 1,496,909 and 1,211,797 diagnostic imaging procedures, respectively, and generated total net revenue of $216.4 million and $181.3 million, respectively.

The consolidated financial statements include the accounts of Radnet Management, Inc. (or “Radnet Management”) and Beverly Radiology Medical Group III, a professional partnership (“BRMG”). BRMG is a partnership of ProNet Imaging Medical Group, Inc., Breastlink Medical Group, Inc. and Beverly Radiology Medical Group, Inc. The consolidated financial statements also include Radnet Management I, Inc., Radnet Management II, Inc., Radiologix, Inc., Radnet Managed Imaging Services, Inc., Delaware Imaging Partners, Inc., New Jersey Imaging Partners, Inc. and Diagnostic Imaging Services, Inc. (“DIS”), all wholly owned subsidiaries of Radnet Management. All of these affiliated entities are referred to collectively as “RadNet”, “we”, “us”, “our” or the “Company” in this report.

Accounting Standards Codification (“ASC”) 810-10-15-14, *Consolidation*, stipulates that generally any entity with a) insufficient equity to finance its activities without additional subordinated financial support provided by any parties, or b) equity holders that, as a group, lack the characteristics specified in the ASC which evidence a controlling financial interest, is considered a Variable Interest Entity (“VIE”). We consolidate all VIEs in which we are the primary beneficiary. We determine whether we are the primary beneficiary of a VIE through a qualitative analysis that identifies which variable interest holder has the controlling financial interest in the VIE. The variable interest holder who has both of the following has the controlling financial interest and is the primary beneficiary: (1) the power to direct the activities of the VIE that most significantly impact the VIE’s economic performance and (2) the obligation to absorb losses of, or the right to receive benefits from, the VIE that could potentially be significant to the VIE. In performing our analysis, we consider all relevant facts and circumstances, including: the design and activities of the VIE, the terms of the contracts the VIE has entered into, the nature of the VIE’s variable interests issued and how they were negotiated with or marketed to potential investors, and which parties participated significantly in the design or redesign of the entity.

Howard G. Berger, M.D., is our President and Chief Executive Officer, a member of our Board of Directors, and also owns, indirectly, 99% of the equity interests in BRMG. BRMG provides all of the professional medical services at nearly all of our facilities located in California under a management agreement with us, and employs physicians or contracts with various other independent physicians and physician groups to provide the professional medical services at most of our other California facilities. We generally obtain professional medical services from BRMG in California, rather than provide such services directly or through subsidiaries, in order to comply with California’s prohibition against the corporate practice of medicine. However, as a result of our close relationship with Dr. Berger and BRMG, we believe that we are able to better ensure that medical service is provided at our California facilities in a manner consistent with our needs and expectations and those of our referring physicians, patients and payors than if we obtained these services from unaffiliated physician groups.

We contract with nine medical groups which provide professional medical services at all of our facilities in Manhattan and Brooklyn, New York. These contracts are similar to our contract with BRMG. Six of these groups are owned by John V. Crues, III, M.D., Radnet’s Medical Director, a member of our Board of Directors, and a 1% owner of BRMG. Dr Berger owns a controlling interest in two of these medical groups which provide professional medical services at one of our Manhattan facilities.

RadNet provides non-medical, technical and administrative services to BRMG and the nine medical groups mentioned above (“NY Groups”) for which it receives a management fee, pursuant to the related management agreements. Through the management agreements we have exclusive authority over all non-medical decision making related to the ongoing business operations of BRMG and the NY Groups and we determine the annual budget of BRMG and the NY Groups. BRMG and the NY Groups both have insignificant operating assets and liabilities, and de minimis equity. Through the management agreement with us, all cash flows of BRMG and the NY Groups are transferred to us.

We have determined that BRMG and the NY Groups are variable interest entities, and that we are the primary beneficiary, and consequently, we consolidate the revenue and expenses, assets and liabilities of each. BRMG and the NY Groups on a combined basis recognized $34.0 million and $25.5 million of revenue, net of management service fees to RadNet, for the three months ended March 31, 2016 and 2015, respectively, and $34.0 million and $25.5 million of operating expenses for the three months ended March 31, 2016 and 2015, respectively. RadNet recognized in its condensed consolidated statement of operations $104.0 million and $99.0 million of net revenues for the three months ended March 31, 2016, and 2015 respectively, for management services provided to BRMG and the NY Groups relating primarily to the technical portion of total billed revenue.

The cash flows of BRMG and the NY Groups are included in the accompanying consolidated statements of cash flows. All intercompany balances and transactions have been eliminated in consolidation. In our consolidated balance sheets at March 31, 2016 and December 31, 2015, we have included approximately $110.5 million and $89.8 million, respectively, of accounts receivable and approximately $9.1 million and $8.5 million of accounts payable and accrued liabilities related to BRMG and the NY Groups.

The creditors of BRMG and the NY Groups do not have recourse to our general credit and there are no other arrangements that could expose us to losses on behalf of BRMG and the NY Groups. However, both BRMG and the NY Groups are managed to recognize no net income or net loss and, therefore, RadNet may be required to provide financial support to cover any operating expenses in excess of operating revenues.

Aside from centers in California where we contract with BRMG for the provision of professional medical services and centers in New York, New York, where we contract with the NY Groups for the provision of professional medical services, at the remaining centers in California and at all of the centers which are located outside of California and New York, New York, we have entered into long-term contracts with independent radiology groups in the area to provide physician services at those facilities. These third party radiology practices provide professional services, including supervision and interpretation of diagnostic imaging procedures, in our diagnostic imaging centers. The radiology practices maintain full control over the provision of professional services. In these facilities we enter into long-term agreements with radiology practice groups (typically 40 years). Under these arrangements, in addition to obtaining technical fees for the use of our diagnostic imaging equipment and the provision of technical services, we provide management services and receive a fee based on the practice group’s professional revenue, including revenue derived outside of our diagnostic imaging centers. We own the diagnostic imaging equipment and, therefore, receive 100% of the technical reimbursements associated with imaging procedures. The radiology practice groups retain the professional reimbursements associated with imaging procedures after deducting management service fees paid to us. We have no financial controlling interest in the independent (non-BRMG or non-NY Groups) radiology practices; accordingly, we do not consolidate the financial statements of those practices in our consolidated financial statements.

We typically experience some seasonality to our business. During the first quarter of each year we generally experience the lowest volumes of procedures and the lowest level of revenue for any quarter during the year. This is primarily the result of two factors. First, our volumes and revenue are typically impacted by winter weather conditions in our northeastern operations. It is common for snowstorms and other inclement weather to result in patient appointment cancellations and, in some cases, imaging center closures. Second, in recent years, we have observed greater participation in high deductible health plans by patients. As these high deductibles reset in January for most of these patients, we have observed that patients utilize medical services less during the first quarter, when securing medical care will result in significant out-of-pocket expenditures.

Critical Accounting Policies

The Securities and Exchange Commission defines critical accounting estimates as those that are both most important to the portrayal of a company's financial condition and results of operations and require management's most difficult, subjective or complex judgment, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. In Note 2 to our consolidated financial statements in our annual report on Form 10-K for the year ended December 31, 2015, as amended, we discuss our significant accounting policies, including those that do not require management to make difficult, subjective or complex judgments or estimates. The most significant areas involving management's judgments and estimates are described below.

Use of Estimates

Our discussion and analysis of financial condition and results of operations are based on our consolidated financial statements that were prepared in accordance with U.S. generally accepted accounting principles, or GAAP. Management makes estimates and assumptions when preparing financial statements. These estimates and assumptions affect various matters, including:

- our reported amounts of assets and liabilities in our consolidated balance sheets at the dates of the financial statements;
- our disclosure of contingent assets and liabilities at the dates of the financial statements; and
- our reported amounts of net revenue and expenses in our consolidated statements of operations during the reporting periods.

These estimates involve judgments with respect to numerous factors that are difficult to predict and are beyond management's control. As a result, actual amounts could differ materially from these estimates.

During the period covered in this report, there were no material changes to the critical accounting estimates we use, and have described in our annual report on Form 10-K for the fiscal year ended December 31, 2015, as amended.

Revenues

Service fee revenue, net of contractual allowances and discounts, consists of net patient fees received from various payors and patients themselves based mainly upon established contractual billing rates, less allowances for contractual adjustments and discounts. As it relates to BRMG and the NY Groups centers, this service fee revenue includes payments for both the professional medical interpretation revenue recognized by BRMG and the NY Groups as well as the payment for all other aspects related to our providing the imaging services, for which we earn management fees from BRMG and the NY Groups. As it relates to non-BRMG and NY Groups centers, namely the affiliated physician groups, this service fee revenue is earned through providing the use of our diagnostic imaging equipment and the provision of technical services as well as providing administration services such as clerical and administrative personnel, bookkeeping and accounting services, billing and collection, provision of medical and office supplies, secretarial, reception and transcription services, maintenance of medical records, and advertising, marketing and promotional activities.

Service fee revenues are recorded during the period the services are provided based upon the estimated amounts due from the patients and third-party payors. Third-party payors include federal and state agencies (under the Medicare and Medicaid programs), managed care health plans, commercial insurance companies and employers. Estimates of contractual allowances are based on historical collection rates of payor reimbursement contract agreements. We also record a provision for doubtful accounts based primarily on historical collection rates from related to patient copayments and deductible amounts for patients who have health care coverage under one of our third-party payors.

Under capitation arrangements with various health plans, we earn a per-enrollee amount each month for making available diagnostic imaging services to all plan enrollees under the capitation arrangement. Revenue under capitation arrangements is recognized in the period in which we are obligated to provide services to plan enrollees under contracts with various health plans.

Our service fee revenue, net of contractual allowances and discounts, the provision for bad debts, and revenue under capitation arrangements are summarized in the following table (in thousands):

	Three Months Ended March 31,	
	2016	2015
Commercial insurance	$126,397	$99,885
Medicare	45,820	37,036
Medicaid	7,023	5,470
Workers' compensation/personal injury	9,514	7,400
Other	12,088	15,239
Service fee revenue, net of contractual allowances and discounts	200,842	165,030
Provision for bad debts	(10,304)	(7,475)
Net service fee revenue	190,538	157,555
Revenue under capitation arrangements	25,850	23,712
Total net revenue	$216,388	$181,267

Provision for Bad Debts

We provide for an allowance against accounts receivable that could become uncollectible to reduce the carrying value of such receivables to their estimated net realizable value. We estimate this allowance based on the aging of our accounts receivable by the historical payment patterns of each type of payor, write-off trends, and other relevant factors. A significant portion of our provision for bad debt relates to co-payments and deductibles owed to us from patients with insurance. Although we attempt to collect deductibles and co-payments due from patients with insurance at the time of service, this attempt to collect at the time of service is not an assessment of the patient's ability to pay nor are revenues recognized based on an assessment of the patient's ability to pay. There are various factors that can impact collection trends, such as changes in the economy, which in turn have an impact on the increased burden of co-payments and deductibles to be made by patients with insurance. These factors continuously change and can have an impact on collection trends and our estimation process.

Accounts Receivable

Substantially all of our accounts receivable are due under fee-for-service contracts from third party payors, such as insurance companies and government-sponsored healthcare programs, or directly from patients. Services are generally provided pursuant to one-year contracts with healthcare providers. Receivables generally are collected within industry norms for third-party payors. We continuously monitor collections from our payors and maintain an allowance for bad debts based upon specific payor collection issues that we have identified and our historical experience.

Depreciation and Amortization of Long-Lived Assets

We depreciate our long-lived assets over their estimated economic useful lives with the exception of leasehold improvements where we use the shorter of the assets useful lives or the lease term of the facility for which these assets are associated.

Deferred Tax Assets

Income tax expense is computed using an asset and liability method and using expected annual effective tax rates. Under this method, deferred income tax assets and liabilities result from temporary differences in the financial reporting bases and the income tax reporting bases of assets and liabilities. The measurement of deferred tax assets is reduced, if necessary, by the amount of any tax benefit that, based on available evidence, is not expected to be realized. When it appears more likely than not that deferred taxes will not be realized, a valuation allowance is recorded to reduce the deferred tax asset to its estimated realizable value. For net deferred tax assets we consider estimates of future taxable income, including tax planning strategies, in determining whether our net deferred tax assets are more likely than not to be realized.

Valuation of Goodwill and Indefinite Lived Intangibles

Goodwill at March 31, 2016 totaled $240.7 million. Indefinite Lived Intangible Assets at March 31, 2016 totaled $8.7 million and are associated with the value of certain trade name intangibles. Goodwill and trade name intangibles are recorded as a result of business combinations. Management evaluates goodwill and trade name intangibles, at a minimum, on an annual basis and whenever events and changes in circumstances suggest that the carrying amount may not be recoverable. Impairment of goodwill is tested at the reporting unit level by comparing the reporting unit's carrying amount, including goodwill, to the fair value of the reporting unit. The fair value of a reporting unit is estimated using a combination of the income or discounted cash flows approach and the market approach, which uses comparable market data. If the carrying amount of the reporting unit exceeds its fair value, goodwill is considered impaired and a second step is performed to measure the amount of impairment loss, if any. Impairment of trade name intangibles is tested at the subsidiary level by comparing the subsidiary's trade name carrying amount to its respective fair value. We tested both goodwill and trade name intangibles for impairment on October 1, 2015, noting no impairment, and have not identified any indicators of impairment through March 31, 2016.

Long-Lived Assets

We evaluate our long-lived assets (property and equipment) and intangibles, other than goodwill, for impairment whenever indicators of impairment exist. The accounting standards require that if the sum of the undiscounted expected future cash flows from a long-lived asset or definite-lived intangible is less than the carrying value of that asset, an asset impairment charge must be recognized. The amount of the impairment charge is calculated as the excess of the asset's carrying value over its fair value, which generally represents the discounted future cash flows from that asset or in the case of assets we expect to sell, at fair value less costs to sell. No indicators of impairment were identified with respect to our long-lived assets as of March 31, 2016.

Recent Accounting Standards

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-09 ("ASU 2016-09"), *Compensation—Stock Compensation*, (Topic 718): Improvements to Employee Share-Based Payment Accounting. ASU 2016-09 requires excess tax benefits and tax deficiencies, which arise due to differences between the measure of compensation expense and the amount deductible for tax purposes, to be recorded directly through the statement of operations as a component of income tax expense. Under current GAAP, these differences are generally recorded in additional paid-in capital and thus have no impact on income. The change in treatment of excess tax benefits and tax deficiencies will also impact the computation of diluted earnings per share, and the cash flows associated with those items will be classified as operating activities on the statement of cash flows. The ASU will permit certain elective changes associated with stock compensation accounting. For example, companies can elect to account for forfeitures of awards as they occur rather than projecting forfeitures in the accrual of compensation expense. In addition, the ASU increases the proportion of shares an employer is permitted (though not required) to withhold on behalf of an employee to satisfy the employee's income tax burden on a share-based award without causing the award to become subject to liability accounting. The amendments in this update are effective for fiscal years (and interim reporting periods within fiscal years) beginning after December 15, 2016, with early adoption permitted. We are currently evaluating the impact of the GAAP update on our results of operations and cash flows.

In February 2016, the FASB issued ASU No. 2016-02 ("ASU 2016-02"), *Leases,* (Topic 842): Amendments to the FASB Accounting Standards Codification. ASU 2016-02 amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. The new standard requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. The amendments in this update are effective for fiscal years (and interim reporting periods within fiscal years) beginning after December 15, 2018. Early adoption of the amendments is permitted for all entities. We are currently evaluating the impact of the GAAP update on our results of operations and cash flows.

In November 2015, the FASB issued ASU No. 2015-17 ("ASU 2015-17"), *Income Taxes* (Topic 740): Balance Sheet Classification of Deferred Taxes. ASU 2015-17 changes the classification of deferred taxes to be a noncurrent asset or liability regardless of the classification of the related asset or liability for financial reporting. The update is effective for fiscal years beginning after December 15, 2016. Early application is permitted at the beginning of an interim or annual reporting period. We are currently evaluating the impact of the GAAP update on our results of operations and cash flows.

In February 2015, the FASB issued ASU No. 2015-02 ("ASU 2015-02"), *Consolidation – Amendments to the Consolidation Analysis,* (Topic 810). ASU 2015-02 changes the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. It is effective for annual reporting periods, and interim periods within those years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. We are currently evaluating the impact of the GAAP update on our results of operations and cash flows.

In May 2014, the FASB issued ASU No. 2014-09 ("ASU 2014-09"), *Revenue from Contracts with Customers*, (Topic 606). ASU 2014-09 requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects what it expects in exchange for the goods or services. It also requires more detailed disclosures to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The update was effective for fiscal years (and interim reporting periods within fiscal years) beginning after December 15, 2016, which has recently been extended to December 31, 2017. We are currently evaluating the impact of the GAAP update on our results of operations and cash flows.

Industry Updates

On April 16, 2015, the President signed into law the Medicare Access and CHIP Reauthorization Act (H.R. 2), which provides for sweeping changes to how Medicare pays physicians, as well as averts the 21% reduction to Medicare payments under the Medicare Physician Fee Schedule that was scheduled to take effect on April 1, 2016. H.R. 2, among other things, repealed the Sustainable Growth Rate ("SGR") formula enacted in 1997 and freezes payment rates at their current levels until rates increase by 0.5% for services furnished during the last 6 months of calendar year 2015. For services paid under the physician fee schedule and furnished during calendar years 2016 through 2019, Medicare's payment rates will increase by 0.5% per year. Fees will remain at the 2019 level through 2025, but high performing providers participating in alternative payment models will have the opportunity for additional payments. Such payments will be based upon quality, resource use, clinical practice improvement activities and meaningful use of electronic health record technology.

Results of Operations

The following table sets forth, for the periods indicated, the percentage that certain items in the statements of operations bears to revenue, net of contractual allowances and discounts and inclusive of revenue under capitation contracts.

RADNET, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(IN THOUSANDS EXCEPT SHARE DATA)

(unaudited)

	Three Months Ended March 31,	
	2016	2015
NET REVENUE		
Service fee revenue, net of contractual allowances and discounts	88.6%	87.4%
Provision for bad debts	-4.5%	-4.0%
Net service fee revenue	84.1%	83.5%
Revenue under capitation arrangements	11.4%	12.6%

Total net revenue	95.5%	96.0%
OPERATING EXPENSES		
Cost of operations, excluding depreciation and amortization	86.8%	89.5%
Depreciation and amortization	7.2%	7.6%
Gain on sale and disposal of equipment	0.0%	0.0%
Severance costs	0.1%	0.0%
Total operating expenses	94.1%	97.1%
INCOME (LOSS) FROM OPERATIONS	1.3%	-1.0%
OTHER INCOME AND EXPENSES		
Interest expense	4.7%	5.3%
Meaningful use incentive	-1.2%	-1.7%
Equity in earnings of joint ventures	-1.0%	-0.6%
Other expenses (income)	0.0%	0.0%
Total other expenses	2.5%	3.0%
LOSS BEFORE INCOME TAXES	-1.2%	-4.0%
Benefit from income taxes	0.5%	1.6%
NET LOSS	-0.6%	-2.4%
Net income attributable to noncontrolling interests	0.1%	0.0%
NET LOSS ATTRIBUTABLE TO RADNET, INC. COMMON STOCKHOLDERS	-0.8%	-2.4%

Three Months Ended March 31, 2016 Compared to the Three Months Ended March 31, 2015

Service Fee Revenue

Service fee revenue for the three months ended March 31, 2016 was $200.8 million compared to $165.0 million for the three months ended March 31, 2015, an increase of $35.8 million, or 21.7%.

Inclusive of only centers in operation over the first quarters of 2016 and 2015, service fee revenue increased $5.2 million or 3.3%. This 3.3% increase primarily resulted from milder weather on the eastern seaboard that did not affect our operations as had in the first quarter of 2015 in addition to increased market awareness that supported additional volumes. This comparison excludes revenue contributions from centers that were acquired or divested subsequent to January 1, 2015. For the three months ended March 31, 2016, service fee revenue from centers that were acquired or divested subsequent to January 1, 2015 and excluded from the above comparison was $37.5 million. For the three months ended March 31, 2015, service fee revenue from centers that were acquired or divested subsequent to January 1, 2015 and excluded from the above comparison was $6.9 million.

Provision for Bad Debts

Provision for bad debts increased $2.8 million, or 37.9%, to approximately $10.3 million, or 4.5% of revenue, for the three months ended March 31, 2016 compared to $7.5 million, or 4.0% of service fee revenue, for the three months ended March 31, 2015. The increase in the provision from 4% of revenue for the first three months of 2015 to 4.5% of revenue for the first three months of 2016 was due to the growing popularity of high-deductible insurance plans as of result of the Affordable Care Act

Revenue Under Capitation Arrangements

Revenue under capitation arrangements for the three months ended March 31, 2016 was $25.9 million compared to $23.7 million for the three months ended March 31, 2015, an increase of $2.1 million or 9.0%. Overall increase was mainly related to new and acquired capitation contracts and amounted to $1.9 million of the total year over year gain, while $181,00 was related to same store growth.

Revenue under capitation arrangements, limited to centers which were in operation throughout the first quarters of 2016 and 2015 increased $181,000, or 0.8%. This comparison excludes revenue contributions from centers that were acquired or divested subsequent to January 1, 2015. For the three months ended March 31, 2016, revenue under capitation arrangements from centers that were acquired or divested subsequent to January 1, 2015 and excluded from the above comparison was $1.9 million. For the three months ended March 31, 2015, capitation revenue from centers that were acquired or divested subsequent to January 1, 2015 and excluded from the above comparison was inconsequential.

Operating Expenses

Cost of operations for the three months ended March 31, 2016 increased approximately $30.2 million, or 16.5%, from $183.2 million for the three months ended March 31, 2015 to $213.4 million for the three months ended March 31, 2016. The following table sets forth our cost of operations and total operating expenses for the three months ended March 31, 2016 and 2015 (in thousands):

	2016	2015
Salaries and professional reading fees, excluding stock-based compensation	$104,946	$90,200
Stock-based compensation	2,733	3,554
Building and equipment rental	19,179	17,117
Medical supplies	13,417	11,503
Other operating expenses *	56,551	46,547
Cost of operations	196,826	168,921
Depreciation and amortization	16,412	14,294
(Gain) loss on sale and disposal of equipment	–	(38)
Severance costs	167	36
Total operating expenses	$213,405	$183,213

* Includes billing fees, office supplies, repairs and maintenance, insurance, business tax and license, outside services, utilities, marketing, travel and other expenses.

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Salaries and professional reading fees, excluding stock-based compensation and severance

Salaries and professional reading fees increased $14.7 million, or 16.4%, to $104.9 million for the three months ended March 31, 2016 compared to $90.2 million for the three months ended March 31, 2015.

Salaries and professional reading fees, limited to centers which were in operation throughout the first quarters of both 2016 and 2015, decreased $3.0 million, or 3.3%. The 3.3% decrease is a result of improved operational efficiencies that included head count reduction. This comparison excludes expenses from centers that were acquired or divested subsequent to January 1, 2015. For the three months ended March 31, 2016, salaries and professional reading fees from centers that were acquired or divested subsequent to January 1, 2015 and excluded from the above comparison was $19.5 million. For the three months ended March 31, 2015, salaries and professional reading fees from centers that were acquired or divested subsequent to January 1, 2015 and excluded from the above comparison was approximately $1.8 million.

Stock-based compensation

Stock-based compensation decreased $821,000, or 23.1%, to approximately $2.7 million for the three months ended March 31, 2016 compared to $3.5 million for the three months ended March 31, 2015. This decrease was driven by the lower fair value of RSA’s awarded and vested in the first quarter of 2016 as compared to RSA’s awarded and vested in the prior year’s first quarter.

Building and equipment rental

Building and equipment rental expenses increased $2.1 million or 12.1%, to $19.2 million for the three months ended March 31, 2016 compared to $17.1 million for the three months ended March 31, 2015.

Building and equipment rental expenses, including only those centers which were in operation throughout the first quarters of both 2016 and 2015, decreased $907,000, or 5.5%. This 5.5% decrease is mainly related to radiology equipment operating leases completing their contractual terms. This comparison excludes expenses from centers that were acquired or divested subsequent to January 1, 2015. For the three months ended March 31, 2016, building and equipment rental expenses from centers that were acquired or divested subsequent to January 1, 2015 and excluded from the above comparison was $3.7 million. For the three months ended March 31, 2015, building and equipment rental expenses from centers that were acquired or divested subsequent to January 1, 2015 and excluded from the above comparison was approximately $739,000.

Medical supplies

Medical supplies expense increased $1.9 million, or 16.6%, to $13.4 million for the three months ended March 31, 2016 compared to $11.5 million for the three months ended March 31, 2015.

Medical supplies expenses, including only those centers which were in operation throughout the first quarters of both 2016 and 2015, increased $118,000, or 1.1%. This comparison excludes expenses from centers that were acquired or divested subsequent to January 1, 2015. For the three months ended March 31, 2016, medical supplies expenses from centers that were acquired or divested subsequent to January 1, 2015 and excluded from the above comparison was $2.1 million. For the three months ended March 31, 2015, medical supplies expense from centers that were acquired or divested subsequent to January 1, 2015 and excluded from the above comparison was $302,000.

Other operating expenses

Other operating expenses increased $10.0 million, or 21.5%, to $56.6 million for the three months ended March 31, 2016 compared to $46.5 million for the three months ended March 31, 2015.

Other operating expenses, including only those centers which were in operation throughout the first quarters of both 2016 and 2015, increased $3.1 million, or 6.9%. This 6.9% increase is due in part to higher insurance and technology licensing costs. This comparison excludes expenses from centers that were acquired or divested subsequent to January 1, 2015. For the three months ended March 31, 2016, other operating expense from centers that were acquired or divested subsequent January 1, 2015 and excluded from the above comparison was $8.7 million. For the three months ended March 31, 2015, other operating expense from centers that were acquired or divested subsequent to January 1, 2015 was $1.8 million.

Depreciation and amortization

Depreciation and amortization increased $2.1 million, or 14.8%, to $16.4 million for the three months ended March 31, 2016 compared to $14.3 million for the three months ended March 31, 2015.

Depreciation and amortization, including only those centers which were in operation throughout the first quarters of both 2016 and 2015, increased $219,000, or 1.6%. This comparison excludes expenses from centers that were acquired or divested subsequent to January 1, 2015. For the three months ended March 31, 2016, depreciation expense from centers that were acquired or divested subsequent to January 1, 2015 and excluded from the above comparison was $2.6 million. For the three months ended March 31, 2015, depreciation and amortization from centers that were acquired or divested subsequent to January 1, 2015 and excluded from the above comparison was $741,000.

Gain on sale and disposal of equipment

We recorded a gain on sale of equipment of approximately $38,000 for the three months ended March 31, 2015.

Interest expense

Interest expense for the three months ended March 31, 2016 increased approximately $685,000, or 6.9%, to $10.7 million for the three months ended March 31, 2016 compared to $10.0 million for the three months ended March 31, 2015. Interest expense for the three months ended March 31, 2016 included $1.4 million of combined non-cash amortization of deferred loan costs, discount on issuance of debt, and incidental financing charges. Interest expense for the three months ended March 31, 2015 included $1.3 million of non-cash amortization of deferred loan costs, discount on issuance of debt and incidental financing charges. Excluding these non-cash amounts for each period, interest expense increased approximately $627,000 for the three months ended March 31, 2016 compared to the three months ended March 31, 2015. This increase was primarily due to interest paid on the 2015 incremental first lien loan taken out in April 2015. See “Liquidity and Capital Resources” below for more details on our debt refinancing.

Meaningful use incentive

For the three months ended March 31, 2016 and March 31, 2015, we recognized other income from meaningful use incentive in the amount of $2.8 million and $3.3 million, respectively. These amounts were earned under a Medicare program to promote the use of electronic health record technology. See Note 3 to the condensed consolidated financial statements contained herein for more detail regarding this meaningful use incentive.

Equity in earnings from unconsolidated joint ventures

For the period ending March 31, 2016 we recognized equity in earnings from unconsolidated joint ventures in the amount of $2.3 million. For the period ending March 31, 2015 we recognized equity in earnings from unconsolidated joint ventures of $1.1 million.

Benefit from income taxes

We had an income tax benefit for the three months ended March 31, 2016 of $1.2 million or 45.2% of loss before income taxes, compared to the three months ended March 31, 2015 with income tax benefit of $3.1 million or 40.1% of loss before income taxes. The effective tax rate changed due the period net loss position, permanent differences, and ISO disqualifying dispositions.

Adjusted EBITDA

We use both GAAP and non-GAAP metrics to measure our financial results. One non-GAAP measure we believe assists us is Adjusted EBITDA. We believe that, in addition to GAAP metrics, these non-GAAP metrics assist us in measuring our cash generated from operations and ability to service our debt obligations. We believe this information is useful to investors and other interested parties because we are highly leveraged and our non-GAAP metrics remove non-cash and certain other charges that occur in the affected period and provide a basis for measuring the Company's financial condition against other quarters.

We define Adjusted EBITDA as earnings before interest, taxes, depreciation and amortization, each from continuing operations and exclude losses or gains on the disposal of equipment, other income or loss, loss on debt extinguishments, bargain purchase gains and non-cash equity compensation. Adjusted EBITDA includes equity earnings in unconsolidated operations and subtracts allocations of earnings to non-controlling interests in subsidiaries, and is adjusted for non-cash or extraordinary and one-time events taking place during the period.

Adjusted EBITDA is a non-GAAP financial measure used as an analytical indicator by us and the healthcare industry to assess business performance, and is a measure of leverage capacity and ability to service debt. Adjusted EBITDA should not be considered a measure of financial performance under GAAP, and the items excluded from Adjusted EBITDA should not be considered in isolation or as alternatives to net income, cash flows generated by operating, investing or financing activities or other financial statement data presented in the consolidated financial statements as an indicator of financial performance or liquidity. As Adjusted EBITDA is not a measurement determined in accordance with GAAP and is therefore susceptible to varying methods of calculation, this metric, as presented, may not be comparable to other similarly titled measures of other companies.

Adjusted EBITDA is most comparable to the GAAP financial measure, net income (loss) attributable to RadNet, Inc. common stockholders. The following is a reconciliation of GAAP net income (loss) attributable to RadNet, Inc. common stockholders to Adjusted EBITDA for the three months ended March 31, 2016 and 2015, respectively:

	Three Months Ended March 31, 2016	2015
Net income attributable to RadNet, Inc. common stockholders	$(1,723)	$(4,554)
Less benefit from income taxes	(1,180)	(3,091)
Plus (less) other expenses (income)	2	(3)
Plus interest expense	10,681	9,996
Plus severance costs	167	36
Less gain on sale and disposal of equipment	–	(38)
Plus depreciation and amortization	16,412	14,294
Plus non-cash employee stock-based compensation	2,733	3,554
Adjusted EBITDA	$27,092	$20,194

Liquidity and Capital Resources

We had cash and cash equivalents of $410,000 and accounts receivable of $177.8 million at March 31, 2016, compared to cash and cash equivalents of $446,000 and accounts receivable of $162.8 million at December 31, 2015. We had a working capital balance of $83.4 million and $72.9 million at March 31, 2016 and December 31, 2015, respectively. We had net loss attributable to RadNet, Inc. common stockholders for the three months ended March 31, 2016 and 2015 of $1.7 million and $4.6 million respectively. We also had stockholders' equity of $33.5 million and $32.6 million at March 31, 2016 and December 31, 2015, respectively.

We operate in a capital intensive, high fixed-cost industry that requires significant amounts of capital to fund operations. In addition to operations, we require a significant amount of capital for the initial start-up and development of new diagnostic imaging facilities, the acquisition of additional facilities and new diagnostic imaging equipment. Because our cash flows from operations have been insufficient to fund all of these capital requirements, we have depended on the availability of financing under credit arrangements with third parties.

Our $101.25 million revolving credit facility had a $16.3 million aggregate principal amount outstanding as of March 31, 2016. Based on our current level of operations, we believe that cash flow from operations and available cash, together with available borrowings from our senior secured credit facilities, will be adequate to meet our liquidity needs. Our future liquidity requirements will be for working capital, capital expenditures, debt service and general corporate purposes. Our ability to meet our working capital and debt service requirements, however, is subject to future economic conditions and to financial, business and other factors, many of which are beyond our control. If we are not able to meet such requirements, we may be required to seek additional financing. There can be no assurance that we will be able to obtain financing from other sources on terms acceptable to us, if at all.

On a continuing basis, we also consider various transactions to increase shareholder value and enhance our business results, including acquisitions, divestitures and joint ventures. These types of transactions may result in future cash proceeds or payments but the general timing, size or success of any acquisition, divestiture or joint venture effort and the related potential capital commitments cannot be predicted. We expect to fund any future acquisitions primarily with cash flow from operations and borrowings, including borrowing from amounts available under our senior secured credit facilities or through new equity or debt issuances.

We and our subsidiaries or affiliates may from time to time, in our sole discretion, purchase, repay, redeem or retire any of our outstanding debt or equity securities in privately negotiated or open market transactions, by tender offer or otherwise. However, we have no formal plan of doing so at this time.

Included in our condensed consolidated balance sheet at March 31, 2016 is $614.2 million of senior secured term loan debt (net of unamortized discounts of $10.6 million), broken down by loan agreement as follows (in thousands):

	Face Value	Discount	Total Carrying Value
First Lien Term Loans	$373,792	$(7,461)	$366,331
2015 Incremental First	$71,053	$(834)	$70,219
Second Lien Term Loans	$180,000	$(2,311)	$177,689
Total	$624,845	$(10,606)	$614,239

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Sources and Uses of Cash

Cash provided by operating activities was $21.0 million and $17.5 million for the three months ended March 31, 2016 and March 31, 2015, respectively.

Cash used in investing activities was $27.8 million and $19.6 million for the three months ended March 31, 2016 and 2015, respectively. For the three months ended March 31, 2016, we purchased property and equipment for approximately $22.5 million and acquired imaging facilities for $5.0 million.

Cash provided by financing activities was $6.8 million and $2.0 million for the three months ended March 31, 2016 and 2015, respectively. The cash provided by financing activities for the three months ended March 31, 2016, was primarily due to amounts received from borrowings under our revolving line of credit, offset by principal payments on our $444.8 million face value term loan and equipment notes and capital leases. (See Note 1 to the condensed consolidated financial statements herein).

As of March 31, 2016, we were in compliance with all covenants under the Original Credit Agreement (as amended by the 2013 Amendment, the 2014 Amendment, and the 2015 Joinder) and the Second Lien Credit Agreement.

The following describes our 2015 financing activities:

2015 Incremental First Lien Term Loans:

On April 30, 2015, we entered into the 2015 Joinder to the Credit Agreement to provide for the borrowing of $75.0 million of incremental first lien term loans (“2015 Incremental First Lien Term Loans”). The 2015 Incremental First Lien Term Loans are treated as part of the same class as the existing tranche B term loans currently outstanding under the Credit Agreement. We used the proceeds from the 2015 Incremental First Lien Term Loans to repay all of the borrowings outstanding under the first lien revolving loan facility and to pay approximately $1.1 million of fees and expenses associated with the transaction.

Interest. The interest rates payable on the 2015 Incremental First Lien Term Loans are the same rates currently payable on the existing tranche B term loans under the Credit Agreement, which are (a) the Adjusted Eurodollar Rate (as defined in the Credit Agreement) plus 3.25% per annum or (b) the Base Rate (as defined in the Credit Agreement) plus 2.25% per annum. As applied to the first lien tranche B term loans, the Adjusted Eurodollar Rate has a minimum floor of 1.0%. The Adjusted Eurodollar Rate at March 31, 2016 was 0.90%.

Payments. The scheduled quarterly amortization of the 2015 Incremental First Lien Term Loans is approximately $987,000, beginning in June 2015. The scheduled quarterly amortization for all of the term loans under the Credit Agreement, including the 2015 Incremental First Lien Term Loans, was increased to approximately $6.2 million, beginning in June 2015.

Maturity Date. The maturity date for the 2015 Incremental First Lien Term Loans shall be on the earlier to occur of (i) October 10, 2018, and (ii) the date on which the 2015 Incremental First Lien Term Loans shall otherwise become due and payable in full under the Credit Agreement, whether by acceleration or otherwise.

Guarantees and Collateral. The obligations under the Credit Agreement, including the 2015 Incremental First Lien Term Loans, are guaranteed by RadNet, Inc., all of our current and future domestic subsidiaries and certain of our affiliates (other than certain excluded foreign subsidiaries). The obligations under the Credit Agreement, including the 2015 Incremental First Lien Term Loans, and the guarantees are secured by a perfected first priority security interest (subject to certain permitted exceptions) in substantially all of Radnet Management's and the guarantors' tangible and intangible assets, including, but not limited to, pledges of equity interests of Radnet Management and all of our current and future domestic subsidiaries.

Restrictive Covenants. In addition to certain customary covenants, the Credit Agreement places limits on our ability to declare dividends or redeem or repurchase capital stock, prepay, redeem or purchase debt, incur liens and engage in sale-leaseback transactions, make loans and investments, incur additional indebtedness, amend or otherwise alter debt and other material agreements, engage in mergers, acquisitions and asset sales, enter into transactions with affiliates and alter the business we and our subsidiaries currently conduct.

Termination. The maturity date for the Second Lien Term Loans is the earlier to occur of (i) March 25, 2021, and (ii) the date on which the Second Lien Term Loans shall otherwise become due and payable in full under the Second Lien Credit Agreement, whether by voluntary prepayment per section 2.13(a) of the Second Lien Credit Agreement or events of default per section 8.01 of the Second Lien Credit Agreement as described below.

Financial Covenants. The Credit Agreement contains financial covenants including a maximum total leverage ratio and a limit on annual capital expenditures.

Events of Default. In addition to certain customary events of default, events of default under the Credit Agreement include failure to pay principal of any loans as and on the date when due, failure to pay any interest on any loan or any fee or other amount payable under the Credit Agreement, as modified by the 2015 Joinder, within five days after the due date, failure of any loan party to comply with any covenant or agreement in the loan documents (subject to applicable grace periods and/or notice requirement), a representation or warranty contained in the loan documents is false in a material respect, events of bankruptcy and a change of control. The occurrence of an event of default could permit the lenders under the Credit Agreement to declare all amounts borrowed, together with accrued interest and fees, to be immediately due and payable and to exercise other default remedies.

The following describes our 2014 financing activities:

2014 Amendment to the Original Credit Agreement and Second Lien Credit and Guaranty Agreement:

On March 25, 2014, we simultaneously entered into two agreements which resulted in the creation of a direct financial obligation as follows:

2014 Amendment of the Original Credit Agreement. We entered into the 2014 Amendment to provide for, among other things, the borrowing of $30.0 million of additional first lien term loans (the "2014 First Lien Term Loans").

Second Lien Credit and Guaranty Agreement. We entered into the Second Lien Credit Agreement to provide for, among other things, the borrowing of $180.0 million of second lien term loans (the "Second Lien Term Loans"). The proceeds from the Second Lien Term Loans and the 2014 First Lien Term Loans were used to redeem the Senior Notes, as more fully described below under the heading "Senior Notes", to pay the expenses related to the transaction and for general corporate purposes.

Revolving Credit Facility. The $101.25 million revolving credit line established in the Credit Agreement was unaltered by the agreements above and remains in place. The termination date for the $101.25 million revolving credit facility is the earliest to occur of (i) October 10, 2017, (ii) the date the revolving credit facility is permanently reduced to zero pursuant to section 2.13(b) of the Credit Agreement, which addresses voluntary commitment reductions and (iii) the date of the termination of the revolving credit facility due to specific events of default pursuant to section 8.01 of the Credit Agreement. The revolving credit facility bears interest based on types of borrowings as follows: (i) unpaid principal at the Adjusted Eurodollar Rate (as defined in the Credit Agreement) plus 4.25% per annum or the Base Rate (as defined in the Credit Agreement) plus 3.25% per annum, (ii) letter of credit and fronting fees at 4.5% per annum, and (iii) commitment fee of 0.5% per annum on the unused revolver balance. The Adjusted Eurodollar Rate at March 31, 2016 was 0.90%.

The 2014 Amendment provided for the following:

Interest. The interest rates payable on the 2014 First Lien Term Loans are the same as the rates currently payable under the Original Credit Agreement, as amended by the 2013 Amendment, which are (a) the Adjusted Eurodollar Rate (as defined in the Credit Agreement) plus 3.25% or (b) the Base Rate (as defined in the Credit Agreement) plus 2.25%. With respect to all of the term loans under the Credit Agreement, the Adjusted Eurodollar Rate has a minimum floor of 1.0%. The Adjusted Eurodollar Rate at March 31, 2016 was 0.90%.

Payments. The scheduled amortization of the term loans under the Original Credit Agreement, as amended by the 2013 Amendment and the 2014 Amendment, was increased, starting in June 2014 from quarterly payments of $975,000 to quarterly payments of approximately $5.2 million, with the remaining balance to be paid at maturity. Scheduled amortization increased annually by $16.8 million from pre-2014 Amendment terms, representing a rise from 1% per annum to 5% per annum of the initial amount borrowed. This $16.8 million additional cash obligation will be partially offset by annual interest savings of approximately $5.0 million under the terms of the Second Lien Term Loan as compared to that under the retired Senior Notes. We expect to fund this approximately $11.8 million net increase in amortization payments from cash provided by operating activities.

The Second Lien Credit Agreement provides for the following:

Interest. The interest rates payable on the Second Lien Term Loans are (a) the Adjusted Eurodollar Rate (as defined in the Second Lien Credit Agreement) plus 7.0% or (b) the Base Rate (as defined in the Second Lien Credit Agreement) plus 6.0%. The Adjusted Eurodollar Rate has a minimum floor of 1.0% on the Second Lien Term Loans. The

Adjusted Eurodollar Rate at March 31, 2016 was 0.90%. The rate paid on the Second Lien Credit Agreement at March 31, 2016 was 8%.

Payments. There is no scheduled amortization of the principal of the Second Lien Term Loans. Unless otherwise prepaid as a result of the occurrence of certain mandatory prepayment events, all principal will be due and payable on the termination date described below.

Termination. The maturity date for the Second Lien Term Loans is the earlier to occur of (i) March 25, 2021, and (ii) the date on which the Second Lien Term Loans shall otherwise become due and payable in full under the Second Lien Credit Agreement, whether by voluntary prepayment per section 2.13(a) of the Second Lien Credit Agreement or events of default per section 8.01 of the Second Lien Credit Agreement as described below.

Restrictive Covenants. In addition to certain customary covenants, the Second Lien Credit Agreement places limits on our ability to declare dividends or redeem or repurchase capital stock, prepay, redeem or purchase debt, incur liens and engage in sale-leaseback transactions, make loans and investments, incur additional indebtedness, amend or otherwise alter debt and other material agreements, engage in mergers, acquisitions and asset sales, enter into transactions with affiliates and alter the business we and our subsidiaries currently conduct.

Events of Default. In addition to certain customary events of default, events of default under the Second Lien Credit Agreement include failure to pay principal of any loans as and on the date when due, failure to pay any interest on any loan or any fee or other amount payable under the Second Lien Term Loans within five days after the due date, failure of any loan party to comply with any covenant or agreements in the loan documents (subject to applicable grace periods and/or notice requirements), a representation or warranty contained in the loan documents is false in a material respect, events of bankruptcy and a change of control. The occurrence of an event of default could permit the lenders under the Second Lien Credit Agreement to declare all amounts borrowed, together with accrued interest and fees, to be immediately due and payable and to exercise other default remedies.

The following describes our key financing activities prior to 2014:

<u>2013 Amendment to the Credit Agreement</u>

On April 3, 2013, we entered into the 2013 Amendment. Pursuant to this amendment, we re-priced the balance of our term loan of $348.3 million and borrowed an additional $40.0 million for a new senior secured term loan total of $388.3 million. The proceeds from the amendment were used to: (i) repay in full all existing term loans under the Original Credit Agreement; (ii) repay outstanding revolving loans; (iii) repay premium, fees and expenses incurred; and (iv) general corporate purposes.

<u>2012 Refinancing and Original Credit Agreement</u>

On October 10, 2012 we completed the refinancing of our then existing credit facilities by entering into the Original Credit Agreement with a syndicate of banks and other financial institutions. The total amount of refinancing was $451.25 million, consisting of (i) a $350 million senior secured term loan and (ii) a $101.25 million senior secured revolving credit facility. The obligations under the Original Credit Agreement are guaranteed by RadNet, Inc. and our current and future domestic subsidiaries and certain of our affiliates (other than certain excluded foreign subsidiaries). The obligations under the Original Credit Agreement, including the guarantees, are secured by a perfected first-priority security interest in all of our tangible and intangible assets, including, but not limited to, pledges of equity interests of Radnet Management and all of our current and future domestic subsidiaries.

We used the net proceeds of the Original Credit Agreement to repay in full our then existing six year term loan facility for $277.9 million in principal amount outstanding, which would have matured on April 6, 2016, and our revolving credit facility for $59.8 million in principal amount outstanding, which would have matured on April 6, 2015.

Subsequent Events

On April 18, 2016, RadNet formed Glendale Advanced Imaging LLC, and on May 9, 2016, utilized the LLC to enter into a joint venture with Dignity Health, a California nonprofit public benefit corporation. Total agreed combined contribution to the venture is expected to be $3.9 million of cash and assets, with RadNet contributing $2.2 million (a 55% stake) and Dignity Health contributing $1.7 million (a 45% stake). The transaction is scheduled to close June 1, 2016. Initial operations at two imaging centers in Glendale, CA are expected to begin by the end of the second quarter of 2016. The venture will explore opportunities to expand both geographically and in its medical service offerings.

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

Foreign Currency Exchange Risk. We receive payment for our services exclusively in United States dollars. As a result, our financial results are unlikely to be affected by factors such as changes in foreign currency, exchange rates or weak economic conditions in foreign markets.

We maintain research and development facilities in Prince Edward Island, Canada and Budapest, Hungary for which expenses are paid in the local currency. Accordingly, we do have currency risk resulting from fluctuations between such local currency and the United States Dollar. At the present time, we do not have any foreign currency exchange contracts to mitigate this risk. At March 31, 2016, a hypothetical 1% decline in the currency exchange rates between the U.S. dollar against the Canadian dollar and the Hungarian Forint would have resulted in an annual increase of approximately $32,000 in operating expenses.

Interest Rate Sensitivity We pay interest on various types of debt instruments to our suppliers and lending institutions. The agreements entail either fixed or variable interest rates. Instruments which have fixed rates are mainly leases on radiology equipment. Variable rate interest obligations relate primarily to amounts borrowed under our outstanding credit facilities. As described in the Liquidity and Capital Resources section above, we can elect Eurodollar or Base Rate interest rate options on the 2014 First Lien Term Loans, 2015 Incremental First Lien Term Loans and the Second Lien Credit Agreement.

At March 31, 2016, we had $444.8 million outstanding subject to an Adjusted Eurodollar election on all first lien tranche B term loans under the Credit Agreement and $180.0 million on the Second Lien Term Loans. As the Adjusted Eurodollar Rate floor exceeds the current spot rate of the 6 month Adjusted Eurodollar, the spot rate would have to increase more than 10 basis points before an additional interest expense would be accrued. An increase of 110 basis points would be necessary to realize a hypothetical 1% increase in the borrowing rate and an annual increase of $6.2 million of interest expense under our first and second lien term loans. At March 31, 2016, an additional $22.5 million in debt instruments is tied to the prime rate. A hypothetical 1% increase in the prime rate for 2015-2016 would have resulted in an annual increase in interest expense of approximately $225,000.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to provide reasonable assurance that material information is (1) gathered and communicated to our management, including our principal executive and financial officers, on a timely basis; and (2) recorded, processed, summarized, reported and filed with the SEC as required under the Securities Exchange Act of 1934, as amended. Under the supervision of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures under Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended, as of March 31, 2016. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective for their intended purpose as of March 31, 2016 because of deficiencies in the design and operating effectiveness of certain information technology general controls ("ITGC's) and information technology dependent manual controls related to the revenue and accounts receivable process caused a material weakness in our internal control over financial reporting as described in more detail below.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Internal control over financial reporting includes policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are transacted in accordance with authorizations of management and directors of the Company, and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Our management, under the supervision of our Chief Executive Officer and Chief Financial Officer, conducted an assessment of the effectiveness of its internal control over financial reporting as of March 31, 2016 based on the criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management concluded that our internal control over financial reporting was not effective at that reasonable assurance level as of March 31, 2016 because of the material weakness described below.

A material weakness is defined as "a deficiency, or a combination of deficiencies in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis."

Our management initially identified certain control deficiencies in connection with the review of our controls at December 31, 2015 and concluded that, as of March 31, 2016, the following control deficiencies related to the Company's revenue and accounts receivable process continue to aggregate to a material weakness in the Company's internal control over financial reporting:

- ITGCs were ineffective for multiple systems which capture and bill revenue transactions as a result of deficiencies pertaining to user access and program change controls and

- Certain information technology dependent manual controls which are designed to ensure the completeness of revenue transaction processing and appropriate valuation of the account receivable were not performed timely or reviewed with sufficient precision.

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The ineffective design and operation of these ITGCs and the related information technology dependent manual controls impacts a material portion of our revenue transactions and consequently created a reasonable possibility that a material misstatement could occur. Our management is not aware of any material misstatement or inaccuracy in the financial statements included in this report.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with existing policies or procedures may deteriorate.

Remediation Plan for Material Weakness

Our management, with oversight of our Audit Committee, has been actively engaged in developing a remediation plan to address the material weakness reported. During the quarter ended March 31, 2016, the Company began to implement remediation efforts as follows:

- Streamline the number and improve the quality of systems utilized by the Company for the capture and billing of revenue transactions.

- Implement effective user access controls across all revenue related systems to ensure proper authentication for established users and timely removal of terminated users, and improve documentation surrounding program change controls.

- Ensure that all revenue-related IT dependent manual controls are performed on a timely basis with a sufficient level of precision.

If the remedial measures described above are insufficient to address the material weakness described above, or are not implemented timely, or additional deficiencies arise in the future, material misstatements in our interim or annual financial statements may occur in the future and could have the effects described in “Item 1A. Risk Factors” in Part II of this Form 10-Q.

Changes in Internal Control over Financial Reporting

Except for the remediation efforts described above, management did not identify any change in internal control over financial reporting occurring during the quarter ended March 31, 2016 that materially affected, or was reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. Legal Proceedings

We are engaged from time to time in the defense of lawsuits arising out of the ordinary course and conduct of our business. We do not believe that the outcome of any of our current litigation will have a material adverse impact on our business, financial condition and results of operations. However, we could be subsequently named as a defendant in other lawsuits that could adversely affect us.

ITEM 1A. Risk Factors

For information about the risks and uncertainties related to our business, please see the risk factors described in our annual report on Form 10-K for the year ended December 31, 2015, as amended. The risks described in our Form 10-K, as amended, are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

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

None.

ITEM 3. Defaults Upon Senior Securities

None.

ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 5. Other Information

None.

ITEM 6. Exhibits

Reference is made to the Exhibit Index immediately following the signature page of this report on Form 10-Q.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

	RADNET, INC. (Registrant)	
Date: May 10, 2016	By:	/s/ Howard G. Berger, M.D. Howard G. Berger, M.D., President and Chief Executive Officer (Principal Executive Officer)
Date: May 10, 2016	By:	/s/ Mark D. Stolper Mark D. Stolper, Chief Financial Officer (Principal Financial and Accounting Officer)

INDEX TO EXHIBITS

Exhibit Number	Description
31.1	Certification of Howard G. Berger, M.D. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Mark D. Stolper pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Howard G. Berger, M.D pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Mark D. Stolper pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS**	XBRL Instance Document
101.SCH**	XBRL Schema Document
101.CAL**	XBRL Calculation Linkbase Document
101.LAB**	XBRL Label Linkbase Document
101.PRE**	XBRL Presentation Linkbase Document
101.DEF**	XBRL Definition Linkbase Document

* This certification is being furnished solely to accompany this report pursuant to 18 U.S.C. 1350, and is not being filed for purposes of Section 18 of the Exchange Act and is not to be incorporated by reference into any filing of the registrant, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

** Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

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