

Edgar Filing: RadNet, Inc. - Form 10-Q

RadNet, Inc.  
Form 10-Q  
August 11, 2008

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2008

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

COMMISSION FILE NUMBER 0-19019

RADNET, INC.  
(EXACT NAME OF REGISTRANT AS SPECIFIED IN CHARTER)

NEW YORK  
(STATE OR OTHER JURISDICTION OF  
INCORPORATION OR ORGANIZATION)

13-3326724  
(I.R.S. EMPLOYER  
IDENTIFICATION NO.)

1510 COTNER AVENUE  
LOS ANGELES, CALIFORNIA  
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

90025  
(ZIP CODE)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (310) 478-7808

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities and Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

Large accelerated filer  Accelerated Filer   
Non-Accelerated Filer  Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes  No

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY  
PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and

## Edgar Filing: RadNet, Inc. - Form 10-Q

reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes [X] No [ ]

The number of shares of the registrant's common stock outstanding on August 7, 2008, was 35,786,474 shares.

Table of Contents

RADNET, INC.

INDEX

### PART I - FINANCIAL INFORMATION

#### ITEM 1. FINANCIAL STATEMENTS

Consolidated Balance Sheets at June 30, 2008 (unaudited) and December 31, 2007

Consolidated Statements of Operations (unaudited) for the Three and Six Months ended June 30, 2008 and 2007

Consolidated Statement of Stockholders' Deficit (unaudited) for the Six Months ended June 30, 2008

Consolidated Statements of Cash Flows (unaudited) for the Six Months Ended June 30, 2008 and 2007

Notes to Consolidated Financial Statements

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

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

ITEM 4. Controls and Procedures

### PART II - OTHER INFORMATION

ITEM 1 Legal Proceedings

ITEM 1A. Risk Factors

ITEM 5 Other Information

ITEM 6 Exhibits

SIGNATURES

INDEX TO EXHIBITS

Edgar Filing: RadNet, Inc. - Form 10-Q

RADNET, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(IN THOUSANDS EXCEPT SHARE DATA)

	June 30, 2008	December 31, 2007
	-----	-----
	(unaudited)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ --	\$ 18
Accounts receivable, net	100,754	87,285
Refundable income taxes	103	105
Prepaid expenses and other current assets	11,172	10,273
	-----	-----
Total current assets	112,029	97,681
PROPERTY AND EQUIPMENT, NET	203,512	164,097
OTHER ASSETS		
Goodwill	102,101	84,395
Other intangible assets	57,971	58,908
Deferred financing costs, net	12,246	9,161
Investment in joint ventures	17,017	15,036
Deposits and other	4,952	4,342
	-----	-----
Total other assets	194,287	171,842
	-----	-----
Total assets	\$ 509,828	\$ 433,620
	=====	=====
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 81,726	\$ 59,965
Due to affiliates	2,255	1,350
Notes payable	5,244	3,536
Current portion of deferred rent	195	195
Obligations under capital leases	12,702	9,455
	-----	-----
Total current liabilities	102,122	74,501
	-----	-----
LONG-TERM LIABILITIES		
Line of credit	12,262	4,222
Deferred rent, net of current portion	7,195	4,394
Deferred taxes	277	277
Notes payable, net of current portion	421,752	382,064
Obligations under capital lease, net of current portion	26,010	22,527
Other non-current liabilities	16,774	15,259
	-----	-----
Total long-term liabilities	484,270	428,743
	-----	-----
COMMITMENTS AND CONTINGENCIES		
MINORITY INTERESTS	100	206
STOCKHOLDERS' DEFICIT		
Common stock - \$.0001 par value, 200,000,000 shares authorized; 35,686,224 and 35,239,558 shares issued and outstanding at June 30, 2008 and December 31, 2007, respectively	4	4
Paid-in-capital	150,978	149,631
Accumulated other comprehensive loss	(5,136)	(4,579)
Accumulated deficit	(222,510)	(214,886)

Edgar Filing: RadNet, Inc. - Form 10-Q

Total stockholders' deficit	(76,664)	(69,830)
Total liabilities and stockholders' deficit	\$ 509,828	\$ 433,620

The accompanying notes are an integral part of these financial statements.

3

RADNET, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(IN THOUSANDS EXCEPT SHARE DATA)  
(UNAUDITED)

	THREE MONTHS ENDED JUNE 30,		SIX MONTH JUNE
	2008	2007	2008
NET REVENUE	\$ 127,446	\$ 107,027	\$ 242,144
OPERATING EXPENSES			
Operating expenses	97,886	79,183	186,852
Depreciation and amortization	14,071	10,579	26,540
Provision for bad debts	7,088	6,862	13,575
Loss (gain) on sale of equipment	(38)	4	(30)
Severance costs	4	247	35
Total operating expenses	119,011	96,875	226,972
INCOME FROM OPERATIONS	8,435	10,152	15,172
OTHER EXPENSES (INCOME)			
Interest expense	12,516	9,779	26,104
Other income	(21)	(51)	(53)
Total other expense	12,495	9,728	26,051
INCOME (LOSS) BEFORE INCOME TAXES, MINORITY INTERESTS AND EARNINGS FROM JOINT VENTURES	(4,060)	424	(10,879)
Provision for income taxes	(14)	(13)	(137)
Minority interest in income of subsidiaries	(25)	(170)	(49)
Equity in earnings of joint ventures	1,950	982	3,441
NET INCOME (LOSS)	\$ (2,149)	\$ 1,223	\$ (7,624)
BASIC NET INCOME (LOSS) PER SHARE	\$ (0.06)	\$ 0.04	\$ (0.21)
DILUTED NET INCOME (LOSS) PER SHARE	\$ (0.06)	\$ 0.03	\$ (0.21)
WEIGHTED AVERAGE SHARES OUTSTANDING			
Basic	35,671,554	34,636,573	35,616,298

Edgar Filing: RadNet, Inc. - Form 10-Q

	=====	=====	=====
Diluted	35,671,554	36,989,320	35,616,298
	=====	=====	=====

The accompanying notes are an integral part of these financial statements.

4

RADNET, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT  
SIX MONTHS ENDED JUNE 30, 2008 (unaudited)  
(IN THOUSANDS EXCEPT SHARE DATA)

	Common Stock		Paid-in	Accumulated	Accumul Othe Comprehe
	Shares	Amount	Capital	Deficit	Loss
	-----	-----	-----	-----	-----
BALANCE - DECEMBER 31, 2007	35,239,558	\$ 4	\$ 149,631	\$ (214,886)	\$ (4,
Issuance of common stock upon exercise of options/warrants	446,666	--	291	--	
Share-based compensation	--	--	1,056	--	
Change in fair value of cash flow hedge	--	--	--	--	(
Net loss	--	--	--	(7,624)	
Comprehensive loss	--	--	--	--	
	-----	-----	-----	-----	-----
BALANCE - JUNE 30, 2008	35,686,224	\$ 4	\$ 150,978	\$ (222,510)	\$ (5,
	=====	=====	=====	=====	=====

The accompanying notes are an integral part of these financial statements.

5

RADNET, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS (IN THOUSANDS)  
(unaudited)

	SIX MONTHS ENDED JUNE 30,	
	2008	2007
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (7,624)	\$ (4,341)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	26,540	21,489
Provision for bad debts	13,575	14,415
Minority interest in income of subsidiaries	49	285
Distributions to minority interests	(155)	(731)
Equity in earnings of joint ventures	(3,441)	(1,977)

5

Edgar Filing: RadNet, Inc. - Form 10-Q

Distributions from joint ventures	2,041	2,629
Deferred rent	2,801	697
Amortization of deferred financing costs	1,192	772
Net (gain) loss on sale of assets	(30)	4
Share-based compensation	1,056	2,602
Changes in operating assets and liabilities, net of assets acquired and liabilities assumed in purchase transactions:		
Accounts receivable	(23,697)	(22,375)
Refundable income taxes	--	6,359
Other current assets	(458)	(3,892)
Other assets	(369)	1,707
Accounts payable and accrued expenses	(476)	(5,817)
	-----	-----
Net cash provided by operating activities	11,004	11,826
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of imaging facilities	(23,528)	(540)
Purchase of property and equipment	(18,190)	(12,067)
Purchase of Radiologix, net of cash acquired	--	(370)
Purchase of equity interest in joint ventures	(728)	--
Proceeds from sale of equipment	65	1,300
Purchase of covenant not to compete contract	--	(250)
Payments collected on notes receivable	--	111
	-----	-----
Net cash used in investing activities	(42,381)	(11,816)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on notes and leases payable	(9,104)	(3,728)
Proceeds from borrowings on credit facility	35,000	--
Proceeds from borrowings on notes and revolving credit facility	9,449	100
Deferred financing costs	(4,277)	--
Payments on line of credit	--	(22)
Proceeds from issuance of common stock	291	437
	-----	-----
Net cash provided by (used in) financing activities	31,359	(3,213)
	-----	-----
NET DECREASE IN CASH	(18)	(3,203)
CASH, BEGINNING OF PERIOD	18	3,221
	-----	-----
CASH, END OF PERIOD	\$ --	\$ 18
	=====	=====
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the period for interest	\$ 23,787	\$ 20,485
	=====	=====

The accompanying notes are an integral part of these financial statements.

RADNET, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) (CONTINUED)

SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES

We entered into capital leases for approximately \$15.7 million and \$9.0 million, excluding capital leases assumed in acquisitions, during the six months ended June 30, 2008 and 2007, respectively. We also acquired capital equipment

## Edgar Filing: RadNet, Inc. - Form 10-Q

for approximately \$17.5 million during the six months ended June 30, 2008 that we had not paid for as of June 30, 2008. The offsetting amount due is recorded in our consolidated balance sheet under Accounts Payable and Accrued Expenses.

Detail of non-cash investing and financing activity related to acquisitions can be found in Note 2.

7

### RADNET, INC. AND AFFILIATES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE 1 - NATURE OF BUSINESS

RadNet, Inc. or RadNet (formerly Primedex Health Systems, Inc.) ("we" or the "Company") was incorporated on October 21, 1985. We operate a group of regional networks comprised of 164 diagnostic imaging facilities located in seven states with operations primarily in California, the Mid-Atlantic, the Treasure Coast area of Florida, Kansas and the Finger Lakes (Rochester) and Hudson Valley areas of New York, providing diagnostic imaging services including magnetic resonance imaging (MRI), computed tomography (CT), positron emission tomography (PET), nuclear medicine, mammography, ultrasound, diagnostic radiology, or X-ray, and fluoroscopy. The Company's operations comprise a single segment for financial reporting purposes.

The results of operations of Radiologix and its wholly-owned subsidiaries have been included in the consolidated financial statements from November 15, 2006, the date of the Company's acquisition of Radiologix. The consolidated financial statements also include the accounts of RadNet Management, Inc., or RadNet Management, and Beverly Radiology Medical Group III (BRMG), which is a professional partnership, all collectively referred to as "us" or "we". The consolidated financial statements also include RadNet Sub, Inc., RadNet Management I, Inc., RadNet Management II, Inc., SoCal MR Site Management, Inc., Radiologix, Inc., RadNet Management Imaging Services, Inc., Delaware Imaging Partners, Inc. and Diagnostic Imaging Services, Inc. (DIS), all wholly owned subsidiaries of RadNet Management.

Howard G. Berger, M.D. is our President and Chief Executive Officer, a member of our Board of Directors and owns approximately 16% of our outstanding common stock. Dr. Berger also owns, indirectly, 99% of the equity interests in BRMG. BRMG provides all of the professional medical services at 84 of our facilities located in California under a management agreement with us, and 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. At 15 centers in California and at all of the centers which are located outside of California, we have entered into long-term contracts with prominent radiology groups in the area to provide physician services at those facilities. The operations of BRMG are consolidated with the Company as a result of the contractual and operational relationship among BRMG, Dr. Berger, and us. We are considered to have a controlling financial interest in BRMG pursuant to the guidance in Emerging Issues Task Force Issue 97-2 (EITF 97-2). BRMG is a partnership of Pronet

## Edgar Filing: RadNet, Inc. - Form 10-Q

Imaging Medical Group, Inc. (99%), Breastlink Medical Group, Inc. (100%) and Beverly Radiology Medical Group, Inc. (99%), each of which are 99% or 100% -owned by Dr. Berger. RadNet provides non-medical, technical and administrative services to BRMG for which it receives a management fee.

Outside of California (and in 15 of our California facilities) we contract with third party radiology practices to 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. The contracted radiology practices generally have: outstanding physician and practice credentials and reputations; strong competitive market positions; a broad sub-specialty mix of physicians; a history of growth and potential for continued growth. 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. Our management service fees are included in net revenue in the consolidated statement of operations and totaled \$7.9 million and \$7.8 million, for the three months ended June 30, 2008 and 2007, respectively, and \$16.2 and \$15.6 for the six months ended June 30, 2008 and 2007, respectively. We have no financial controlling interest in the contracted radiology practices, as defined in EITF 97-2; accordingly, we do not consolidate the financial statements of those practices in our consolidated financial statements.

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X and, therefore, do not include all information and footnotes necessary for a fair presentation of financial position, results of operations and cash flows in conformity with U.S. generally accepted accounting principles complete financial statements; however, in the opinion of our management, all

8

adjustments consisting of normal recurring adjustments necessary for a fair presentation of financial position, results of operations and cash flows for the interim periods ended June 30, 2008 and 2007 have been made. The results of operations for any interim period are not necessarily indicative of the results for a full year. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes thereto contained in our Annual Report on Form 10-K for the year ended December 31, 2007.

### LIQUIDITY AND CAPITAL RESOURCES

We had a working capital balance of \$9.9 million and \$23.2 million at June 30, 2008 and December 31, 2007, respectively. We had net losses of \$2.1 million and \$7.6 million for the three and six months ended June 30, 2008, respectively. We had net income of \$1.2 million and net losses of \$4.3 million for the three and six months ended June 30, 2007, respectively. We also had a stockholders' deficit of \$76.7 million and \$69.8 million at June 30, 2008 and December 31, 2007, respectively.

We operate in a capital intensive, high fixed-cost industry that requires significant amounts of capital to fund operations. In addition to



## Edgar Filing: RadNet, Inc. - Form 10-Q

operations, we require a significant amount of capital for the initial start-up and development expense of new diagnostic imaging facilities, the acquisition of additional facilities and new diagnostic imaging equipment, and to service our existing debt and contractual obligations. 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 business strategy with regard to operations focuses on the following:

- o Maximizing performance at our existing facilities;
- o Focusing on profitable contracting;
- o Expanding MRI, CT and PET applications;
- o Optimizing operating efficiencies; and
- o Expanding our networks.

Our ability to generate sufficient cash flow from operations to make payments on our debt and other contractual obligations will depend on our future financial performance. A range of economic, competitive, regulatory, legislative and business factors, many of which are outside of our control, will affect our financial performance. Although no assurance can be given, taking these factors into account, including our historical experience, we believe that through implementing our strategic plans and continuing to restructure our financial obligations, we will obtain sufficient cash to satisfy our obligations as they become due in the next twelve months.

On February 22, 2008, we secured a second incremental \$35 million ("Second Incremental Facility") of capacity as part of our existing credit facilities with GE Commercial Finance Healthcare Financial Services. The Second Incremental Facility consists of an additional \$35 million as part of our second lien term loan and the first lien term loan or revolving credit facility may be increased by up to an additional \$40 million sometime in the future. As part of the transaction, partly due to the drop in LIBOR of over 2.00% since the credit facilities were established in November 2006, we increased the Applicable LIBOR Margin to 4.25% for the revolving credit facility and the term loan to 9% from 6% for the second lien term loan. The additions to our existing credit facilities are intended to provide capital for near-term opportunities and future expansion.

### NOTE 2 - FACILITY ACQUISITIONS AND DIVESTITURES

#### ACQUISITIONS

On June 18, 2008, we acquired the assets and business of Ellicott Open MRI for the assumption of approximately \$181,000 of capital lease debt. We have made a preliminary purchase price allocation of the acquired assets and liabilities, and no goodwill was recorded with respect to this transaction.

On June 2, 2008, we acquired the assets and business of Simi Valley Advanced Medical, a Southern California based multi-modality imaging center, for the assumption of capital lease debt of \$1.7 million. We have made a preliminary purchase price allocation of the acquired assets and liabilities, and approximately \$300,000 of goodwill was recorded with respect to this transaction.

On April 15, 2008, we acquired the net assets of five Los Angeles area imaging centers from InSight Health Corp. We completed the purchase of a sixth center in Van Nuys, CA from Insight Health Corp. on June 2, 2008. The total purchase price for the six centers was \$8.5 million in cash. The centers provide a combination of imaging modalities, including MRI, CT, X-ray, Ultrasound and

## Edgar Filing: RadNet, Inc. - Form 10-Q

Mammography. We have made a preliminary purchase price allocation of the acquired assets and liabilities, and approximately \$5.2 million of goodwill was recorded with respect to this transaction.

9

On April 1, 2008, we acquired the net assets and business of BreastLink Medical Group, Inc., a prominent Southern California Breast Medical Oncology business and a leading breast surgery business, for the assumption of approximately \$4.0 million of accrued liabilities and capital lease obligations. We have made a preliminary purchase price allocation of the acquired assets and liabilities, and approximately \$2.1 million of goodwill was recorded with respect to this transaction.

On March 12, 2008, we acquired the net assets and business of Papastavros Associates Medical Imaging for \$9.0 million in cash and the assumption of capital leases of \$337,000. Founded in 1958, Papastavros Associates Medical Imaging is one of the largest and most established outpatient imaging practices in Delaware. The 12 Papastavros centers offer a combination of MRI, CT, PET, nuclear medicine, mammography, bone densitometry, fluoroscopy, ultrasound and X-ray. We have made a preliminary purchase price allocation of the acquired assets and liabilities, and approximately \$3.2 million of goodwill, and \$1.2 million for covenants not to compete, was recorded with respect to this transaction.

On February 1, 2008, we acquired the net assets and business of The Rolling Oaks Imaging Group, located in Westlake and Thousand Oaks, California, for \$6.0 million in cash and the assumption of capital leases of \$2.7 million. The practice consists of two centers, one of which is a dedicated women's center. The centers are multimodality and include a combination of MRI, CT, PET/CT, mammography, ultrasound and x-ray. The centers are positioned in the community as high-end, high-quality imaging facilities that employ state-of-the-art technology, including 3 Tesla MRI and 64 slice CT units. The facilities have been fixtures in the Westlake/Thousand Oaks market since 2003. We have made a preliminary purchase price allocation of the acquired assets and liabilities, and approximately \$6.7 million of goodwill was recorded with respect to this transaction.

On October 9, 2007, we acquired the assets and business of Liberty Pacific Imaging located in Encino, California for \$2.8 million in cash. The center operates a successful MRI practice utilizing a 3T MRI unit, the strongest magnet strength commercially available at this time. The center was founded in 2003. The acquisition allows us to consolidate a portion of our Encino/Tarzana MRI volume onto the existing Liberty Pacific scanner. This consolidation allows us to move our existing 3T MRI unit in that market to our Squadron facility in Rockland County, New York. Approximately \$1.1 million of goodwill was recorded with respect to this transaction. Also, \$200,000 was recorded for the fair value of a covenant not to compete contract.

In September 2007, we acquired the assets and business of three facilities comprising Valley Imaging Center, Inc. located in Victorville, CA for \$3.3 million in cash plus the assumption of approximately \$866,000 of debt. The acquired centers offer a combination of MRI, CT, X-ray, Mammography, Fluoroscopy and Ultrasound. The physician who provided the interpretive radiology services to these three locations joined BRMG. The leased facilities associated with these centers includes a total monthly rental of approximately \$18,000. Approximately \$2.8 million of goodwill was recorded with respect to this transaction. Also, \$150,000 was recorded for the fair value of a covenant not to compete contract.

In September 2007, we acquired the assets and business of Walnut Creek

## Edgar Filing: RadNet, Inc. - Form 10-Q

Open MRI located in Walnut Creek, CA for \$225,000. The center provides MRI services. The leased facility associated with this center includes a monthly rental of approximately \$6,800 per month. Approximately \$50,000 of goodwill was recorded with respect to this transaction.

In July 2007, we acquired the assets and business of Borg Imaging Group located in Rochester, NY for \$11.6 million in cash plus the assumption of approximately \$2.4 million of debt. Borg was the owner and operator of six imaging centers, five of which are multimodality, offering a combination of MRI, CT, X-ray, Mammography, Fluoroscopy and Ultrasound. After combining the Borg centers with RadNet's existing centers in Rochester, New York, RadNet has a total of 11 imaging centers in Rochester. The leased facilities associated with these centers includes a total monthly rental of approximately \$71,000 per month. Approximately \$9.2 million of goodwill was recorded with respect to this transaction. Also, \$1.4 million was recorded for the fair value of covenant not to compete contracts.

In March 2007, we acquired the assets and business of Rockville Open MRI, located in Rockville, Maryland, for \$540,000 in cash and the assumption of a capital lease of \$1.1 million. The center provides MRI services. The center is 3,500 square feet with a monthly rental of approximately \$8,400 per month. Approximately \$365,000 of goodwill was recorded with respect to this transaction.

### DIVESTITURES

In December 2007, we sold 24% of a 73% investment in one of our consolidated joint ventures for approximately \$2.3 million resulting in a revised ownership of 49%. As a result of this transaction, we no longer consolidate this joint venture. Accordingly, our consolidated balance sheet at

10

December 31, 2007 includes this 49% interest as a component of our total investment in non-consolidated joint ventures where it is accounted for under the equity method. The amounts eliminated from our consolidated balance sheet as a result of the deconsolidation were not material. Since the deconsolidation occurred at the end of 2007, no significant amounts were eliminated from our statement of operations.

In October 2007 we divested a non-core center in Golden, Colorado for \$325,000.

In June 2007 we divested a non-core center in Duluth, Minnesota to a local multi-center operator for \$1.3 million.

### NOTE 3 - INCOME (LOSS) PER SHARE

Income (loss) per share is based upon the weighted average number of shares of common stock and common stock equivalents outstanding, as follows (in thousands except share and per share data):

THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30
2008	2007	2008
(unaudited)	(unaudited)	(unaudited)

Edgar Filing: RadNet, Inc. - Form 10-Q

Net income (loss)	\$ (2,149)	\$ 1,223	\$ (7,624)	\$
BASIC INCOME (LOSS) PER SHARE				
Weighted average number of common shares outstanding during the period	35,671,554	34,636,573	35,616,298	
Basic income (loss) per share	\$ (0.06)	\$ 0.04	\$ (0.21)	\$
DILUTED INCOME (LOSS) PER SHARE				
Weighted average number of common shares outstanding during the period	35,671,554	34,636,573	35,616,298	
Add additional shares issuable upon exercise of stock options and warrants	--	2,352,747	--	
Weighted average number of common shares used in calculating diluted earnings per share	35,671,554	36,989,320	35,616,298	
Diluted income (loss) per share	\$ (0.06)	\$ 0.03	\$ (0.21)	\$

For the three and six months ended June 30, 2008 and the six months ended June 30, 2007, we excluded all options and warrants in the calculation of diluted loss per share because their effect is antidilutive.

NOTE 4 - INVESTMENT IN JOINT VENTURES

We have nine unconsolidated joint ventures with ownership interests ranging from 22% to 50%. These joint ventures represent partnerships with hospitals, health systems or radiology practices and were formed for the purpose of owning and operating diagnostic imaging centers. Professional services at the joint venture diagnostic imaging centers are performed by contracted radiology practices or a radiology practice that participates in the joint venture. Our investment in these joint ventures is accounted for under the equity method. Investment in joint ventures increased \$2.0 million to \$17.0 million at June 30, 2008 compared to \$15.0 million at December 31, 2007. This increase is primarily related to our purchase of an additional \$728,000 of share holdings in joint ventures that were existing as of December 31, 2007 as well as our equity earnings of \$3.4 million for the six months ended June 30, 2008, offset by \$2.0 of distributions received during the period.

We received management service fees from the centers underlying these joint ventures of approximately \$2.0 million and \$1.2 million for the three months ended June 30, 2008 and 2007, respectively, and \$3.8 million and \$2.1 million for the six months ended June 30, 2008 and 2007, respectively.

11

The following table is a summary of key financial data for these joint ventures as of and for the six months ended June 30, 2008 and 2007 (in thousands):

	JUNE 30,	
Balance Sheet Data:	2008	2007
	-----	-----

## Edgar Filing: RadNet, Inc. - Form 10-Q

Current assets	\$ 20,592	\$ 15,304
Noncurrent assets	24,937	11,874
Current liabilities	(4,661)	(2,629)
Noncurrent liabilities	(10,136)	(558)
	-----	-----
Total net assets	\$ 30,732	\$ 23,991
	=====	=====
Book value of Radnet joint venture interests	\$ 13,547	\$ 9,473
Cost in excess of book value of acquired joint venture interests	3,470	--
	-----	-----
Total value of Radnet joint venture interests	\$ 17,017	\$ 9,473
	=====	=====
Total book value of other joint venture partner interests	\$ 17,185	\$ 14,518
	=====	=====
Net revenue	\$ 40,341	\$ 29,376
Net income	\$ 8,945	\$ 6,217

### NOTE 5 - SHARE BASED COMPENSATION

We have three long-term incentive plans. We have not issued options under the 1992 plan since the inception of the 2000 plan and we have not issued options under the 2000 plan since the adoption of the 2006 plan. We have reserved for issuance under the 2006 plan 2,500,000 shares of common stock. Options granted under the 2006 plan to employees are intended to qualify as incentive stock options under existing tax regulations. In addition, we issue non-qualified stock options and warrants under the 2006 plan from time to time to non-employees, in connection with acquisitions and for other purposes and we may also issue stock under the plans. Stock options and warrants generally vest over three to five years and expire five to ten years from date of grant.

As of June 30, 2008, 513,750, or approximately 33.3%, of all the outstanding stock options and warrants under the 2006 plan are fully vested. During the six months ended June 30, 2008, we granted options and warrants to acquire 445,000 shares of common stock.

We have issued warrants outside the plan under various types of arrangements to employees, in conjunction with debt financing and in exchange for outside services. All warrants issued to employees, directors and consultants after our February 2007 listing on the NASDAQ Global Market have been characterized as awards under the 2006 plan. All warrants outside the plan are issued with an exercise price equal to the fair market value of the underlying common stock on the date of issuance. The warrants expire from five to seven years from the date of grant. Vesting terms are determined by the board of directors or the compensation committee of the board of directors at the date of issuance.

As of June 30, 2008, 2,841,237, or approximately 81.0%, of all the outstanding warrants outside the 2006 plan are fully vested. During the six months ended June 30, 2008, we did not grant any warrants outside the 2006 plan.

The compensation expense recognized for all equity-based awards is net of estimated forfeitures and is recognized over the awards' service period. In accordance with Staff Accounting Bulletin ("SAB") No. 107, we classified equity-based compensation in operating expenses with the same line item as the majority of the cash compensation paid to employees.

The following tables illustrate the impact of equity-based compensation

Edgar Filing: RadNet, Inc. - Form 10-Q

on reported amounts (in thousands except per share data):

12

	FOR THE THREE MONTHS ENDED JUNE 30,			
	2008		2007	
	IMPACT OF EQUITY-BASED COMPENSATION		IMPACT OF EQUITY-BASED COMPENSATION	
	AS REPORTED	COMPENSATION	AS REPORTED	COMPENSATION
Income from operations	\$ 8,435	\$ (602)	\$ 10,152	\$ (382)
Income (loss) before income tax	\$ (2,135)	\$ (602)	\$ 1,236	\$ (382)
Net income (loss)	\$ (2,149)	\$ (602)	\$ 1,223	\$ (382)
Net basic income (loss) per share	\$ (0.06)	\$ (0.02)	\$ 0.04	\$ (0.01)
Net diluted income (loss) per share	\$ (0.06)	\$ (0.02)	\$ 0.03	\$ (0.01)

	FOR THE SIX MONTHS ENDED JUNE 30,			
	2008		2007	
	IMPACT OF EQUITY-BASED COMPENSATION		IMPACT OF EQUITY-BASED COMPENSATION	
	AS REPORTED	COMPENSATION	AS REPORTED	COMPENSATION
Income from operations	\$ 15,172	\$ (1,056)	\$ 14,561	\$ (2,602)
Loss before income tax	\$ (7,487)	\$ (1,056)	\$ (4,312)	\$ (2,602)
Net loss	\$ (7,624)	\$ (1,056)	\$ (4,341)	\$ (2,602)
Net basic loss per share	\$ (0.21)	\$ (0.03)	\$ (0.13)	\$ (0.08)
Net diluted loss per share	\$ (0.21)	\$ (0.03)	\$ (0.13)	\$ (0.08)

The following summarizes all of our option and warrant activity for the six months ended June 30, 2008:

OUTSTANDING OPTIONS AND WARRANTS UNDER THE 2006 PLAN	SHARES	WEIGHTED AVERAGE EXERCISE PRICE PER COMMON SHARE	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (IN YEARS)	AGGREGATE INTRINSIC VALUE
Balance, December 31, 2007	1,165,250	\$ 5.74		
Granted	445,000	7.43		
Exercised	(50,000)	1.44		
Canceled or expired	(19,000)	7.69		
Balance, June 30, 2008	1,541,250	\$ 6.34	5.21	\$ 1,012,250
Exercisable at June 30, 2008	513,750	\$ 4.80	1.33	\$ 871,450

  

NON-PLAN OUTSTANDING WARRANTS	SHARES	WEIGHTED AVERAGE EXERCISE PRICE PER COMMON SHARE	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (IN YEARS)	AGGREGATE INTRINSIC VALUE
Balance, December 31, 2007	3,996,667	\$ 1.85		

Edgar Filing: RadNet, Inc. - Form 10-Q

Granted	--		--		
Exercised	(396,666)		1.10		
Canceled or expired	(90,430)		1.42		
	-----				
Balance, June 30, 2008	3,509,571	\$	1.93	3.30	\$ 14,968,820
	=====				
Exercisable at June 30, 2008	2,841,237	\$	1.36	2.64	\$ 13,760,484
	=====				

The aggregate intrinsic value in the table above represents the difference between our closing stock price on June 30, 2008 and the exercise price, multiplied by the number of in-the-money options and warrants on June 30, 2008. Total intrinsic value of options and warrants exercised during the six months ended June 30, 2008 was approximately \$3.5 million. As of June 30, 2008, total unrecognized share-based compensation expense related to non-vested employee awards was approximately \$6.2 million, which is expected to be recognized over a weighted-average period of approximately 3.8 years.

13

The fair value of each option/warrant granted is estimated on the grant date using the Black-Scholes option pricing model which takes into account as of the grant date the exercise price and expected life of the option/warrant, the current price of the underlying stock and its expected volatility, expected dividends on the stock and the risk-free interest rate for the term of the option/warrant.

The following is the weighted average data used to calculate the fair value:

	RISK-FREE INTEREST RATE	EXPECTED LIFE	EXPECTED VOLATILITY	EXPECTED DIVIDENDS
	-----	----	-----	-----
June 30, 2008	2.63%	4.0 years	76.13%	-
June 30, 2007	4.57%	4.1 years	94.65%	-

We have determined the expected term assumption under the "Simplified Method" as defined in SAB 107, as amended by SAB 110. The expected stock price volatility is based on the historical volatility of our stock. The risk-free interest rate is based on the U.S. Treasury yield in effect at the time of grant with an equivalent remaining term. We have not paid dividends in the past and do not currently plan to pay any dividends in the near future.

The weighted-average grant date fair value of stock options and warrants granted during the six months ended June 30, 2008 and 2007 was \$4.25 and \$3.34, respectively.

NOTE 6 - FAIR VALUE MEASUREMENTS

In September 2006, the FASB issued SFAS 157, FAIR VALUE MEASUREMENTS. SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States, and expands disclosures about fair value measurements. We have adopted the provisions of SFAS 157 as of January 1, 2008 for financial instruments. Although the adoption of SFAS 157 did not materially impact our financial position, results of operations, or cash flow, we are now required to provide additional disclosures as part of our financial statements.

## Edgar Filing: RadNet, Inc. - Form 10-Q

SFAS 157 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers are: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The Company maintains interest rate swaps which are required to be recorded at fair value on a recurring basis. At June, 30, 2008 the fair value of these swaps of \$6.9 million was determined using Level 2 inputs and is included in other non-current liabilities.

### NOTE 7 - SUBSEQUENT EVENTS

On July 23, 2008, we completed our purchase of the assets and business of NeuroSciences Imaging Center in Newark, Delaware for \$4.5 million in cash. The center, which performs MRI, CT, Bone Density, X-ray, Fluoroscopy and other specialized procedures, is located in a highly specialized medical complex called the Neuroscience and Surgery Institute of Delaware. The acquisition complements our recent purchase of the Papastavros Associates Imaging centers completed in March, 2008.

### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### 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 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements reflect, among other things, management's current expectations and anticipated results of operations, all of which are subject to known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements, or industry results, to differ materially from those expressed or implied by such forward-looking statements. Therefore, any

14

statements contained herein that are not statements of historical fact may be forward-looking statements and should be evaluated as such. Without limiting the foregoing, the words "believes," "anticipates," "plans," "intends," "will," "expects," "should" and similar words and expressions are intended to identify forward-looking statements. Except as required under the federal securities laws or by the rules and regulations of the SEC, we assume no obligation to update any such forward-looking information to reflect actual results or changes in the factors affecting such forward-looking information. The factors included in "Risks Relating to Our Business," in our Annual Report on Form 10-K for the fiscal year ended December 31, 2007, as amended or supplemented by the information if any, 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.

The Company intends that all forward-looking statements made will be subject to the safe harbor protection of the federal securities laws pursuant to Section 27A of the Securities Act and Section 21E of the Exchange Act. Forward-looking statements are based upon, among other things, the Company's assumptions with respect to:

- o future revenues;



## Edgar Filing: RadNet, Inc. - Form 10-Q

- o expected performance and cash flows;
- o changes in regulations affecting the Company;
- o changes in third-party reimbursement rates;
- o the outcome of litigation;
- o the availability of radiologists at BRMG and our other contracted radiology practices;
- o competition;
- o acquisitions and divestitures of businesses;
- o joint ventures and other business arrangements;
- o access to capital and the terms relating thereto;
- o technological changes in our industry;
- o successful execution of internal plans;
- o compliance with our debt covenants; and
- o anticipated costs of capital investments.

You should consider the limitations on, and risks associated with, forward-looking statements and not unduly rely on the accuracy of predictions contained in such forward-looking statements. As noted above, these forward-looking statements speak only as of the date when they are made. The Company does not undertake any obligation to update forward-looking statements to reflect events, circumstances, changes in expectations, or the occurrence of unanticipated events after the date of those statements. Moreover, in the future, the Company, through senior management, may make forward-looking statements that involve the risk factors and other matters described in this Form 10-Q as well as other risk factors subsequently identified, including, among others, those identified in the Company's filings with the SEC on Form 10-K, Form 10-Q and Form 8-K.

### OVERVIEW

The following discussion should be read along with the unaudited consolidated condensed financial statements included in this Form 10-Q, as well as the Company's 2007 Annual Report on Form 10-K filed with the Securities and Exchange Commission, which provides a more thorough discussion of the Company's services, industry outlook, and business trends.

We operate a group of regional networks comprised of 164 diagnostic imaging facilities located in seven states with operations primarily in California, the Mid-Atlantic, the Treasure Coast area of Florida, Kansas and the Finger Lakes (Rochester) and Hudson Valley areas of New York, providing diagnostic imaging services including magnetic resonance imaging (MRI), computed tomography (CT), positron emission tomography (PET), nuclear medicine, mammography, ultrasound, diagnostic radiology, or X-ray, and fluoroscopy. The Company's operations comprise a single segment for financial reporting purposes.

The results of operations of Radiologix and its wholly-owned subsidiaries have been included in the consolidated financial statements from November 15, 2006, the date of the Company's acquisition of Radiologix. The consolidated financial statements also include the accounts of RadNet Management, Inc., or RadNet Management, and Beverly Radiology Medical Group III (BRMG), which is a professional partnership, all collectively referred to as "us" or "we". The consolidated financial statements also include RadNet Sub, Inc., RadNet Management I, Inc., RadNet Management II, Inc., SoCal MR Site Management, Inc., Radiologix, Inc., RadNet Management Imaging Services, Inc., Delaware Imaging Partners, Inc. and Diagnostic Imaging Services, Inc. (DIS), all wholly owned subsidiaries of RadNet Management.

Howard G. Berger, M.D. is our President and Chief Executive Officer, a member of our Board of Directors and owns approximately 16% of our outstanding

## Edgar Filing: RadNet, Inc. - Form 10-Q

common stock. Dr. Berger also owns, indirectly, 99% of the equity interests in BRMG. BRMG provides all of the professional medical services at 84 of our facilities located in California under a management agreement with us, and 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. At 15 centers in California and at all of the centers which are located outside of California, we have entered into long-term contracts with prominent radiology groups in the area to provide physician services at those facilities. The operations of BRMG are consolidated with the Company as a result of the contractual and operational relationship among BRMG, Dr. Berger, and us. We are considered to have a controlling financial interest in BRMG pursuant to the guidance in Emerging Issues Task Force Issue 97-2 (EITF 97-2). BRMG is a partnership of Pronet Imaging Medical Group, Inc. (99%), Breastlink Medical Group, Inc. (100%) and Beverly Radiology Medical Group, Inc. (99%), each of which are 99% or 100% -owned by Dr. Berger. RadNet provides non-medical, technical and administrative services to BRMG for which it receives a management fee.

Outside of California we contract with radiology practices to provide professional services, including supervision and interpretation of diagnostic imaging procedures, in our non-California diagnostic imaging centers and 15 California centers. The radiology practices maintain full control over the provision of professional services. The contracted radiology practices generally have outstanding physician and practice credentials and reputations; strong competitive market positions; a broad sub-specialty mix of physicians; a history of growth and potential for continued growth.

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 assets and, therefore, receive 100% of the technical reimbursements associated with imaging procedures. We have no financial controlling interest in the contracted radiology practices, as defined in EITF 97-2; accordingly, we do not consolidate the financial statements of those practices in our consolidated financial statements.

### CRITICAL ACCOUNTING 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:

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

## Edgar Filing: RadNet, Inc. - Form 10-Q

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 materially differ from these estimates.

The SEC, 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.

As of the period covered in this report, there have been no material changes to the critical accounting estimates we use, and have explained, in our annual report on Form 10-K for the fiscal year ended December 31, 2007.

16

### RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, the percentage that certain items in the statement of operations bears to net revenue.

RADNET, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF OPERATIONS	THREE MONTHS ENDED JUNE 30,		SIX M J
	2008	2007	2008
	-----	-----	-----
NET REVENUE	100.0%	100.0%	100.0%
OPERATING EXPENSES			
Operating expenses	76.8%	74.0%	77.2%
Depreciation and amortization	11.0%	9.9%	11.0%
Provision for bad debts	5.6%	6.4%	5.6%
Loss (gain) on sale of equipment	0.0%	0.0%	0.0%
Severance costs	0.0%	0.2%	0.0%
Total operating expenses	93.4%	90.5%	93.7%
INCOME FROM OPERATIONS	6.6%	8.0%	11.9%
OTHER EXPENSES (INCOME)			
Interest expense	9.8%	9.1%	10.8%
Other income	0.0%	0.0%	0.0%
Total other expense	9.8%	9.1%	10.8%
INCOME (LOSS) BEFORE INCOME TAXES, MINORITY INTERESTS AND EARNINGS FROM JOINT VENTURES	-3.2%	0.4%	-4.5%
Provision for income taxes	0.0%	0.0%	-0.1%
Minority interest in income of subsidiaries	0.0%	-0.2%	0.0%
Equity in earnings of joint ventures	1.5%	0.9%	1.4%
NET INCOME (LOSS)	-1.7%	1.0%	-6.0%

Edgar Filing: RadNet, Inc. - Form 10-Q

THREE MONTHS ENDED JUNE 30, 2008 COMPARED TO THE THREE MONTHS ENDED JUNE 30, 2007

NET REVENUE

Net revenue for the three months ended June 30, 2008 was \$127.4 million compared to \$107.0 million for the three months ended June 30, 2007, an increase of \$20.4 million, or 19.1%.

Net revenue, including only those centers which were in operation throughout the second quarters of both 2007 and 2008, increased \$4.1 million, or 3.8%. This 3.8% increase is mainly due to an increase in procedure volumes. This comparison excludes revenue contributions from centers that were acquired or divested subsequent to March 31, 2007. For the three months ended June 30, 2008, net revenue from centers that were acquired subsequent to March 31, 2007 and excluded from the above comparison (see Note 2) was \$19.7 million. Contributing to the net revenue of the second quarter ended June 30, 2007 and excluded from the above comparison was \$3.4 million from centers that were divested and were not operational in the second quarter ended June 30, 2008.

17

OPERATING EXPENSES

Operating expenses for the three months ended June 30, 2008 increased approximately \$18.7 million, or 23.6%, from \$79.2 million for the three months ended June 30, 2007 to \$97.9 million for the three months ended June 30, 2008. The following table sets forth our operating expenses for the three months ended June 30, 2008 and 2007 (in thousands):

	THREE MONTHS ENDED JUNE 30,	
	2008	2007
	-----	-----
Salaries and professional reading fees excluding stock compensation	\$ 53,677	\$ 40,867
Share-based compensation	602	382
Building and equipment rental	10,636	10,044
General administrative expenses	32,971	27,890
	-----	-----
Operating expenses	97,886	79,183
Depreciation and amortization	14,071	10,579
Provision for bad debts	7,088	6,862
Gain (loss) on sale of equipment, net	(38)	4
Severance costs	4	247
	-----	-----
Total operating expenses	\$ 119,011	\$ 96,875
	=====	=====

SALARIES AND PROFESSIONAL READING FEES, EXCLUDING STOCK COMPENSATION AND SEVERANCE

Salaries and professional reading fees increased \$12.8 million, or

## Edgar Filing: RadNet, Inc. - Form 10-Q

31.4%, to \$53.7 million for the three months ended June 30, 2008 compared to \$40.9 million for the three months ended June 30, 2007.

Salaries and professional reading fees, including only those centers which were in operation throughout the second quarters of both 2007 and 2008, increased \$6.8 million, or 16.5%. This 16.5% increase is primarily due to increased salaries and staffing related to these existing imaging centers. This comparison excludes contributions from centers that were acquired or divested subsequent to March 31, 2007. For the three months ended June 30, 2008, salaries and professional reading fees from centers that were acquired subsequent to March 31, 2007 and excluded from the above comparison (see Note 2) was \$7.0 million. Contributing to the salaries and professional reading fees of the second quarter ended June 30, 2007 and excluded from the above comparison was \$1.0 million from centers that were divested and were not operational in the second quarter ended June 30, 2008.

### SHARE-BASED COMPENSATION

Share-based compensation increased \$220,000, or 57.6%, to \$602,000 for the three months ended June 30, 2008 compared to \$382,000 for the three months ended June 30, 2007. The increase is primarily due to additional options granted during the second half of 2007 and the first half of 2008.

### BUILDING AND EQUIPMENT RENTAL

Building and equipment rental expenses increased \$592,000, or 5.9%, to \$10.6 million for the three months ended June 30, 2008 compared to \$10.0 million for the three months ended June 30, 2007.

Building and equipment rental expenses, including only those centers which were in operation throughout the second quarters of both 2007 and 2008, decreased \$733,000, or 7.3%. This 7.3% decrease is primarily due to the conversion of certain equipment leases contracts from operating to capital leases. This comparison excludes contributions from centers that were acquired or divested subsequent to March 31, 2007. For the three months ended June 30, 2008, building and equipment rental expenses from centers that were acquired subsequent to March 31, 2007 and excluded from the above comparison (see Note 2) was \$1.7 million. Contributing to the building and equipment rental expenses of the second quarter ended June 30, 2007 and excluded from the above comparison was \$344,000 from centers that were divested and were not operational in the second quarter ended June 30, 2008.

18

### GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses include billing fees, medical supplies, office supplies, repairs and maintenance, insurance, business tax and license, outside services, utilities, marketing, travel and other expenses. Many of these expenses are variable in nature including medical supplies and billing fees, which increase with volume and repairs and maintenance under our GE service agreement as a percentage of net revenue. Overall, general and administrative expenses increased \$5.1 million, or 18.2%, for the three months ended June 30, 2008 compared to the previous period. The increase is in line with our increase in procedure volumes at both existing centers as well as newly acquired centers.

### DEPRECIATION AND AMORTIZATION

Depreciation and amortization increased \$3.5 million, or 33.0%, to \$14.1 million for the three months ended June 30, 2008 compared to the same

## Edgar Filing: RadNet, Inc. - Form 10-Q

period last year. The increase is primarily due to property and equipment additions for existing centers as well as newly acquired centers.

### PROVISION FOR BAD DEBTS

Provision for bad debts increased \$226,000, or 3.3%, to \$7.1 million, or 5.5% of net revenue, for the three months ended June 30, 2008 compared to \$6.9 million, or 6.4% of net revenue, for the three months ended June 30, 2007. The decrease in our provision for bad debts as a percentage of revenue is primarily due to an increase in collection performance and the completion of our billing system implementation which began in the first quarter of 2007.

### SEVERANCE COSTS

During the three months ended June 30, 2008, we recorded severance costs of \$4,000 compared to \$247,000 recorded during the three months ended June 30, 2007. In each period, these costs were primarily associated with the integration of Radiologix.

### INTEREST EXPENSE

Interest expense for the three months ended June 30, 2008 increased approximately \$2.7 million, or 28.0%, from the same period in 2007. The increase is primarily due to the \$60 million increase in Term Loans B & C and increased borrowing on the line of credit. Also included in interest expense for the three months ended June 30, 2008 and 2007 is amortization of deferred loan costs of \$579,000 and 461,000, respectively as well as realized gains on our fair value hedges of 690,000 and 695,000, respectively.

### INCOME TAX EXPENSE

For the three months ended June 30, 2008, we recorded \$14,000 in income tax expense related to certain state tax obligations of Radiologix.

### EQUITY IN EARNINGS FROM UNCONSOLIDATED JOINT VENTURES

For the three months ended June 30, 2008, we recognized equity in earnings from unconsolidated joint ventures of \$2.0 million compared to \$1.0 million for the three months ended June 30, 2007. This increase is due to our purchase of additional equity interests in certain existing joint ventures as well as the deconsolidation in the fourth quarter of 2007 of a previously consolidated joint venture increasing the number of our consolidated joint ventures from eight to nine.

### SIX MONTHS ENDED JUNE 30, 2008 COMPARED TO THE SIX MONTHS ENDED JUNE 30, 2007

#### NET REVENUE

Net revenue for the six months ended June 30, 2008 was \$242.1 million compared to \$212.8 million for the six months ended June 30, 2007, an increase of \$29.3 million, or 13.8%.

Net revenue, including only those centers which were in operation throughout the first six months of both 2007 and 2008, increased \$7.5 million, or 3.5%. This 3.5% increase is mainly due to an increase in procedure volumes. This comparison excludes revenue contributions from centers that were acquired or divested subsequent to January 31, 2007. For the six months ended June 30, 2008, net revenue from centers that were acquired subsequent to January 31, 2007 and excluded from the above comparison (see Note 2) was \$28.7 million. Contributing to the net revenue of the six months ended June 30, 2007 and excluded from the above comparison was \$6.9 million from centers that were divested and were not operational in the six months ended June 30, 2008.

## Edgar Filing: RadNet, Inc. - Form 10-Q

19

### OPERATING EXPENSES

Operating expenses for the six months ended June 30, 2008 increased approximately \$25.3 million, or 15.6%, from \$161.6 million for the six months ended June 30, 2007 to \$186.9 million for the six months ended June 30, 2008. The following table sets forth our operating expenses for the six months ended June 30, 2008 and 2007 (in thousands):

	SIX MONTHS ENDED JUNE 30,	
	2008	2007
Salaries and professional reading fees, excluding stock compensation	\$ 103,062	\$ 86,161
Share-based compensation	1,056	2,602
Building and equipment rental	20,892	20,106
General administrative expenses	61,842	52,599
NASDAQ one-time listing fee	--	120
	186,852	161,588
Depreciation and amortization	26,540	21,489
Provision for bad debts	13,575	14,415
Loss (gain) on sale of equipment, net	(30)	4
Severance costs	35	785
	\$ 226,972	\$ 198,281
	=====	=====

### SALARIES AND PROFESSIONAL READING FEES, EXCLUDING STOCK COMPENSATION AND SEVERANCE

Salaries and professional reading fees increased \$16.9 million, or 19.6%, to \$103.1 million for the six months ended June 30, 2008 compared to \$86.2 million for the six months ended June 30, 2007.

Salaries and professional reading fees, including only those centers which were in operation throughout the first six months of both 2007 and 2008, increased \$8.4 million, or 9.7%. This 9.7% increase is primarily due to increased salaries and staffing related to these existing imaging centers. This comparison excludes contributions from centers that were acquired or divested subsequent to January 31, 2007. For the six months ended June 30, 2008, salaries and professional reading fees from centers that were acquired subsequent to January 31, 2007 and excluded from the above comparison (see Note 2) was \$10.4 million. Contributing to the salaries and professional reading fees of the six months ended June 30, 2007 and excluded from the above comparison was \$1.9 million from centers that were divested and were not operational in the six months ended June 30, 2008.

### SHARE-BASED COMPENSATION

Share-based compensation decreased \$1.5 million, or 59.4%, to \$1.1 million for the six months ended June 30, 2008 compared to \$2.6 million for the six months ended June 30, 2007. Stock compensation for the six months ended June 30, 2007 included \$1.8 million of additional stock based compensation expense as

## Edgar Filing: RadNet, Inc. - Form 10-Q

a result of the acceleration of vesting of certain warrants.

### BUILDING AND EQUIPMENT RENTAL

Building and equipment rental expenses increased \$786,000, or 3.9%, to \$20.9 million for the six months ended June 30, 2008 compared to \$20.1 million for the six months ended June 30, 2007.

20

Building and equipment rental expenses, including only those centers which were in operation throughout the first six months of both 2007 and 2008, decreased \$1.6 million, or 8.1%. This 8.1% decrease is primarily due to the conversion of certain equipment leases contracts from operating to capital leases. This comparison excludes contributions from centers that were acquired or divested subsequent to January 31, 2007. For the six months ended June 30, 2008, building and equipment rental expenses from centers that were acquired subsequent to January 31, 2007 and excluded from the above comparison (see Note 2) was \$3.0 million. Contributing to the building and equipment rental expenses of the six months ended June 30, 2007 and excluded from the above comparison was \$630,000 from centers that were divested and were not operational in the six months ended June 30, 2008.

### GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses include billing fees, medical supplies, office supplies, repairs and maintenance, insurance, business tax and license, outside services, utilities, marketing, travel and other expenses. Many of these expenses are variable in nature including medical supplies and billing fees, which increase with volume and repairs and maintenance under our GE service agreement as a percentage of net revenue. Overall, general and administrative expenses increased \$9.2 million, or 17.6%, for the six months ended June 30, 2008 compared to the previous period. The increase is in line with our increase in procedure volumes at both existing centers as well as newly acquired centers.

### DEPRECIATION AND AMORTIZATION

Depreciation and amortization increased \$5.1 million, or 23.5%, to \$26.5 million for the six months ended June 30, 2008 when compared to the same period last year. The increase is primarily due to property and equipment additions for existing centers and newly acquired centers.

### PROVISION FOR BAD DEBTS

Provision for bad debts decreased \$840,000, or 5.8%, to \$13.6 million, or 5.6% of net revenue, for the six months ended June 30, 2008 compared to \$14.4 million, or 6.8% of net revenue, for the six months ended June 30, 2007. The decrease in our provision for bad debts as a percentage of revenue is primarily due to an increase in collection performance and the completion of our billing system implementation which began in the first quarter of 2007.

### SEVERANCE COSTS

During the six months ended June 30, 2008, we recorded severance costs of \$35,000 compared to \$785,000 recorded during the six months ended June 30, 2007. In each period, these costs were primarily associated with the integration of Radiologix.

### INTEREST EXPENSE



## Edgar Filing: RadNet, Inc. - Form 10-Q

Interest expense for the six months ended June 30, 2008 increased approximately \$5.5 million, or 26.6%, from the same period in 2007. The increase is primarily due to the \$60 million increase in Term Loans B & C and increased borrowing on the line of credit. Also included in interest expense for the six months ended June 30, 2008 and 2007 is amortization of deferred loan costs of \$1.2 million and 772,000, respectively, as well as realized losses of \$261,000 and realized gains of \$557,000 on our fair value hedges for the six months ended June 30, 2008 and 2007, respectively.

### INCOME TAX EXPENSE

For the six months ended June 30, 2008 and 2007, we recorded \$137,000 and \$29,000, respectively, for income tax expense related to certain state tax obligations of Radiologix.

### EQUITY IN EARNINGS FROM UNCONSOLIDATED JOINT VENTURES

For the six months ended June 30, 2008, we recognized equity in earnings from unconsolidated joint ventures of \$3.4 million compared to \$2.0 million for the six months ended June 30, 2007. This increase is due to our purchase of additional equity interests in certain existing joint ventures as well as the deconsolidation in the fourth quarter of 2007 of a previously consolidated joint venture increasing the number of our consolidated joint ventures from eight to nine.

### LIQUIDITY AND CAPITAL RESOURCES

On November 15, 2006, we entered into a \$405 million senior secured credit facility with GE Commercial Finance Healthcare Financial Services (the "November 2006 Credit Facility"). This facility was used to finance our acquisition of Radiologix, refinance existing indebtedness, pay transaction costs and expenses relating to our acquisition of Radiologix, and provide

21

financing for working capital needs post-acquisition. The facility consists of a revolving credit facility of up to \$45 million, a \$225 million first lien Term Loan and a \$135 million second lien Term Loan. The revolving credit facility has a term of five years, the term loan has a term of six years and the second lien term loan has a term of six and one-half years. Interest is payable on all loans initially at an Index Rate plus the Applicable Index Margin, as defined. The Index Rate is initially a floating rate equal to the higher of the rate quoted from time to time by The Wall Street Journal as the "base rate on corporate loans posted by at least 75% of the nation's largest 30 banks" or the Federal Funds Rate plus 50 basis points. The Applicable Index Margin on each of the revolving credit facility and the term loan is 2% and on the second lien term loan is 6%. We may request that the interest rate instead be based on LIBOR plus the Applicable LIBOR Margin, which is 3.5% for the revolving credit facility and the term loan and 7.5% for the second lien term loan. The credit facility includes customary covenants for a facility of this type, including minimum fixed charge coverage ratio, maximum total leverage ratio, maximum senior leverage ratio, limitations on indebtedness, contingent obligations, liens, capital expenditures, lease obligations, mergers and acquisitions, asset sales, dividends and distributions, redemption or repurchase of equity interests, subordinated debt payments and modifications, loans and investments, transactions with affiliates, changes of control, and payment of consulting and management fees.

On August 23, 2007, we secured an incremental \$35 million ("Incremental Facility") as part of our existing credit facilities with GE Commercial Finance Healthcare Financial Services. The Incremental Facility consists of an

## Edgar Filing: RadNet, Inc. - Form 10-Q

additional \$25 million as part of our first lien Term Loan and \$10 million of additional capacity under our existing revolving line of credit. The Incremental Facility will be used to fund certain identified strategic initiatives and for general corporate purposes.

On February 22, 2008, we secured a second incremental \$35 million ("Second Incremental Facility") of capacity as part of our existing credit facilities with GE Commercial Finance Healthcare Financial Services. The Second Incremental Facility consists of an additional \$35 million as part of our second lien term loan and the first lien term loan or revolving credit facility may be increased by up to an additional \$40 million sometime in the future. As part of the transaction, partly due to the drop in LIBOR of over 2.00% since the credit facilities were established in November 2006, we increased the Applicable LIBOR Margin to 4.25% for the revolving credit facility and the term loan and to 9.0% from 6.0% for the second lien term loan. The additions to our existing credit facilities are intended to provide capital for near-term opportunities and future expansion.

As part of the senior secured credit facility financing, we swapped 50% of the aggregate principal amount of the facilities to a floating rate within 90 days of the closing. On April 11, 2006, effective April 28, 2006, we entered into an interest rate swap on \$73.0 million fixing the LIBOR rate of interest at 5.47% for a period of three years. This swap was made in conjunction with the \$161.0 million credit facility that closed on March 9, 2006. In addition, on November 15, 2006, we entered into an interest rate swap on \$107.0 million fixing the LIBOR rate of interest at 5.02% for a period of three years, and on November 28, 2006, we entered into an interest rate swap on \$90.0 million fixing the LIBOR rate of interest at 5.03% for a period of three years. Previously, the interest rate on the above \$270.0 million portion of the credit facility was based upon a spread over LIBOR which floats with market conditions.

The Company documents its risk management strategy and hedge effectiveness at the inception of the hedge, and, unless the instrument qualifies for the short-cut method of hedge accounting, over the term of each hedging relationship. The Company's use of derivative financial instruments is limited to interest rate swaps, the purpose of which is to hedge the cash flows of variable-rate indebtedness. The Company does not hold or issue derivative financial instruments for speculative purposes. In accordance with Statement of Financial Accounting Standards No. 133, derivatives that have been designated and qualify as cash flow hedging instruments are reported at fair value. The gain or loss on the effective portion of the hedge (i.e., change in fair value) is initially reported as a component of other comprehensive income in the Company's Consolidated Statement of Stockholders' Equity. The remaining gain or loss, if any, is recognized currently in earnings. Of the derivatives that were not designated as cash flow hedging instruments, we recorded an increase to interest expense of approximately \$261,000, and a decrease to interest expense of \$690,000 for the six months ended June 30, 2008 and 2007, respectively. The corresponding liability of approximately \$1.8 million is included in the other non-current liabilities in the consolidated balance sheets at June 30, 2008. Of the derivatives that were designated as cash flow hedging instruments, we recorded \$5.1 million to accumulated other comprehensive loss, and an offsetting liability of the same amount for the fair value of these hedging instruments at June 30, 2008.

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 significant amounts of capital for the initial start-up and development expense of new diagnostic imaging facilities, the acquisition of additional facilities and new diagnostic imaging equipment, and to service our

## Edgar Filing: RadNet, Inc. - Form 10-Q

existing debt and contractual obligations. 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 business strategy with regard to operations will focus on the following:

- o Maximizing performance at our existing facilities;
- o Focusing on profitable contracting;
- o Expanding MRI, CT and PET applications;
- o Optimizing operating efficiencies; and
- o Expanding our networks

Our ability to generate sufficient cash flow from operations to make payments on our debt and other contractual obligations will depend on our future financial performance. A range of economic, competitive, regulatory, legislative and business factors, many of which are outside of our control, will affect our financial performance. Taking these factors into account, including our historical experience and our discussions with our lenders to date, although no assurance can be given, we believe that through implementing our strategic plans and continuing to restructure our financial obligations, we will obtain sufficient cash to satisfy our obligations as they become due in the next twelve months.

### SOURCES AND USES OF CASH

Cash provided by operating activities was \$11.0 million and \$11.8 million for the six months ended June 30, 2008 and 2007, respectively.

Cash used by investing activities was \$42.4 million and \$11.8 million for the six months ended June 30, 2008 and 2007, respectively. For the six months ended June 30, 2008, we purchased property and equipment for approximately \$18.2 million and acquired the assets and businesses of additional imaging facilities for approximately \$23.5 million (see Note 2). We also purchased additional equity interests in joint ventures of \$728,000.

Cash provided by financing activities was \$31.4 million for the six months ended June 30, 2008 and cash used in financing activities was \$3.2 million for the six months ended June 30, 2007. The cash provided by financing activities for the six months ended June 30, 2008 was primarily related to our borrowing of an additional \$35 million as part of our second lien term loan with GE Commercial Healthcare Financial Services.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

**Foreign Currency.** We sell our services exclusively in the United States and 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.

**Interest Rates.** A large portion of our interest expense is not sensitive to changes in the general level of interest in the United States because the majority of our indebtedness has interest rates that were fixed when we entered into the note payable or capital lease obligation. On November 15, 2006, we entered into a \$405 million senior secured credit facility with GE Commercial Finance Healthcare Financial Services. The facility consists of a revolving credit facility of up to \$45 million, a \$225 million term loan and a \$135 million second lien term loan. Interest is payable on all loans initially at an Index Rate plus the Applicable Index Margin, as defined. The Index Rate is initially a floating rate equal to the higher of the rate quoted from time to

## Edgar Filing: RadNet, Inc. - Form 10-Q

time by The Wall Street Journal as the "base rate on corporate loans posted by at least 75% of the nation's largest 30 banks" or the Federal Funds Rate plus 50 basis points. Until February 22, 2008, the Applicable Index Margin on each the revolving credit facility and the term loan was 2% and on the second lien term loan was 6%. We may request that the interest rate instead be based on LIBOR plus the Applicable LIBOR Margin, which was 3.5% for the revolving credit facility and the term loan and 7.5% for the second lien term loan.

On February 22, 2008, we secured an incremental \$35 million ("Second Incremental Facility") as part of our existing credit facilities with GE Commercial Finance Healthcare Financial Services. The Second Incremental Facility consists of an additional \$35 million as part of our second lien term loan and the ability to further increase the second lien term loan by up to \$25 million and the first line term loan or revolving credit facility by up to an additional \$40 million sometime in the future. As part of the transaction, partly due to the drop in LIBOR of over 2.00% since the credit facilities were established in November 2006, we increased the Applicable LIBOR Margin to 4.25% for the revolving credit facility and the term loan and 9.0% for the second lien term loan.

23

Debentures. As part of the financing, we were required to swap at least 50% of the aggregate principal amount of the facilities to a floating rate within 90 days of the close of the agreement on November 15, 2006. On April 11, 2006, effective April 28, 2006, we entered into an interest rate swap on \$73.0 million fixing the LIBOR rate of interest at 5.47% for a period of three years. This swap was made in conjunction with the \$161.0 million credit facility closed on March 9, 2006. In addition, on November 15, 2006, we entered into an interest rate swap on \$107.0 million fixing the LIBOR rate of interest at 5.02% for a period of three years, and on November 28, 2006, we entered into an interest rate swap on \$90.0 million fixing the LIBOR rate of interest at 5.03% for a period of three years. Previously, the interest rate on the above \$270.0 million portion of the credit facility was based upon a spread over LIBOR which floats with market conditions.

#### ITEM 4. CONTROLS AND PROCEDURES

##### DISCLOSURE CONTROLS AND PROCEDURES

Our management, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as defined under Rule 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of June 30, 2008, the end of the period covered by this quarterly report on Form 10-Q, due to the existence of the material weaknesses in our financial statement close process and our entity level controls.

##### CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

During the three months ended June 30, 2008, we implemented improvements to our internal controls as explained below:

##### VALUATION OF ACCOUNTS RECEIVABLE

-----

We have formed a Revenue Committee, which includes the participation of the Chief Executive Officer, Chief Financial Officer, Director of Reimbursement

## Edgar Filing: RadNet, Inc. - Form 10-Q

Operations and other financial personnel. The Committee meets every month to review the collection statistics applied to monthly and year-to-date gross charges as well as review the collectability of accounts receivable balances as of the end of each month. The Committee has reviewed and analyzed collection run-out statistics and compared cash collections to historical data and trends during the six months ended June 30, 2008. We believe that the implementation of our Revenue Committee enhanced our controls and improved our ability to accurately value our accounts receivable balances.

### FIXED ASSET RECORDING

-----

We have assigned additional resources to track, record and depreciate fixed assets. We have scheduled monthly meetings with the purchasing department and monthly calls with the regional controllers and have identified assets when they were delivered to sites and have recorded correct in-service dates during the six months ended June 30, 2008.

### LIABILITY FOR MEDICAL MALPRACTICE EXPOSURE

-----

We have engaged a third-party actuary that assisted us in the determination of IBNR as of June 30, 2008 which we used to adjust our IBNR reserve as of June 30, 2008.

## PART II - OTHER INFORMATION

### ITEM 1 LEGAL PROCEEDINGS

At June 30, 2008, the status of all current legal matters previously disclosed in Part 1, Item 3, of our Form 10-K for the year ended December 31, 2007 is unchanged except:

In Re DVI, Inc. Securities Litigation. United States District Court, Eastern District of PA, Docket No. 2:03-CV-05336-LDD

This is a class action securities fraud case under Section 10(b) of the Securities Exchange Act and Rule 10b-5. It was brought by shareholders of DVI, Inc. ("DVI"), one of our former major lenders, against DVI officers and directors and a number of third party defendants, including us. The case arises from bankruptcy proceedings instituted by DVI in August 2003. We were named as a defendant in the Third Amended Complaint filed in July 2004.

24

The putative plaintiff class consists of those persons who purchased or otherwise acquired DVI, Inc. securities between August of 1999 and August of 2003. Plaintiffs allege that in 2000, we acquired from a third party one or more unprofitable imaging centers in order to help DVI conceal the fact that existing DVI loans on the centers were delinquent. Plaintiffs argue that we should have known that DVI was engaging in fraudulent practices to conceal losses, and our alleged "lack of due diligence" in investigating DVI's finances in the course of these acquisitions amounted to complicity in deceptive and misleading practices. We denied all allegations.

The plaintiff has sent to us a stipulation to dismiss us from the case in consideration of our agreement to waive our claim for costs against the plaintiff. The dismissal is subject to notice to the class and court approval.

### ITEM 1A RISK FACTORS

## Edgar Filing: RadNet, Inc. - Form 10-Q

In addition to the other information set forth in this report, we urge you to carefully consider the factors discussed in Part I, "Item 1A Risk Factors" in our Form 10-K for the year ended December 31, 2007, which could materially affect our business, financial condition and results of operations. The risks described in our Form 10-K 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 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

At our annual meeting held on May 28, 2008 and adjourned until June 12, 2008 the following occurred:

a) The following directors were elected:

	For	Withheld
	-----	-----
Howard G. Berger, M.D.	26,238,386	5,351,710
Marvin S. Cadwell	30,887,830	702,266
John V. Crues, III, M.D.	26,501,020	5,089,076
Norman R. Hames	26,481,193	5,108,903
Lawrence L. Levitt	30,871,580	718,516
M.L. Sherman, M.D.	31,370,391	219,705
David L. Swartz	30,876,430	713,666

b) The proposal to reincorporate the Company in Delaware was approved:

For	Against	Abstentions & Broker Non-votes
-----	-----	-----
25,009,048	57,690	16,447

c) In the approved proposal to ratify the appointment of independent accountants the vote was:

For	Against	Abstentions & Broker Non-votes
-----	-----	-----
31,532,431	22,036	35,628

ITEM 5 OTHER INFORMATION

From February 2007 to April 2008, we issued warrants to certain directors, officers and employees, and to a physician who performs professional

## Edgar Filing: RadNet, Inc. - Form 10-Q

services for BRMG, exercisable for an aggregate of 800,000 shares. These warrants have been characterized as nonstatutory stock options granted under our 2006 Equity Incentive Plan, or 2006 plan, in order to comply with the qualitative listing requirements of the NASDAQ Stock Market requiring stockholder approval of the establishment or material amendment of stock option or purchase plans pursuant to which stock may be acquired by officers, directors, employees or consultants. In general, the terms of these warrants are comparable to the terms of nonstatutory stock options granted under the 2006 plan. The 2006 plan at all times had sufficient shares reserved and available for issuance to accommodate these warrants as awards under the 2006 plan. The forms of these warrants are attached to this report as Exhibits 10.2 and 10.3.

The 2006 plan provides a limit on the aggregate number of shares subject to awards granted during any calendar year to any one awardee. The sole purpose of this limit is to enable awards granted to "covered employees" (defined below) to qualify as performance-based compensation under Section 162(m) of the Internal Revenue Code. Section 162(m) of the Code places a limit of \$1 million on the amount of compensation that we may deduct in any one year with respect to the "covered employees," which are the chief executive officer and the three other most highly paid executive officers (excluding the chief financial officer). Performance-based compensation, in which the material terms of the applicable performance goals have been approved by stockholders, is not subject to this deduction limit. Awards granted under the 2006 plan may constitute performance-based compensation not subject to the deduction limit of Section 162(m) of the Code. One of the requirements for gains on stock options to qualify as performance-based compensation is that there must be a limit to the number of shares granted to any one individual under the plan. Accordingly, the 2006 plan provides that the maximum number of shares for which awards may be made to any awardee in any calendar year is 125,000, except that in connection with his or her initial service, an awardee may be granted awards covering up to an additional 125,000 shares. We refer to this limit as the Section 162(m) share limit.

The warrants discussed above were not intended to qualify as performance-based compensation under Section 162(m) of the Code, and two of the warrants granted were in excess of the Section 162(m) share limit. In order to address any ambiguity in the applicability of the Section 162(m) share limit, on August 11, 2008, our Compensation and Management Development Committee and Board approved an amendment to the 2006 plan to clarify that the 162(m) share limit does not apply to awards granted under the 2006 plan that are not intended to qualify as performance-based compensation within the meaning of Section 162(m) of the Code. The amendment was retroactive to the effective date of the 2006 plan, and expressly applied to the two warrants granted in excess of the Section 162(m) limit. The amendment is attached to this report as Exhibit 10.1.

The foregoing disclosure concerning the amendment to the 2006 plan is provided in lieu of disclosure in Item 1.01 of Form 8-K.

### Section 16(a) Beneficial Ownership Reporting and Compliance

---

In the course of our review of the warrants discussed above, we discovered certain filings required during 2006 and 2007 under Section 16(a) of the Exchange Act were filed late or filed on the incorrect form. Section 16(a) of the Exchange Act requires our directors, executive officers and beneficial owners of more than 10% of our common stock to file reports of ownership and changes in ownership with the SEC. Directors Michael L. Sherman, M.D. and Marvin S. Cadwell each filed late a Form 3 disclosing his respective holdings upon being appointed a director of the Company in January 2007, and each disclosed the grant of a warrant on February 27, 2007 on such Form 3 rather than on a Form 4. Each of such Form 3s was however filed within the time permitted for disclosing such grant on Form 4. Stephen M. Forthuber, our Executive Vice

## Edgar Filing: RadNet, Inc. - Form 10-Q

President and Chief Operating Officer for Eastern Operations, filed late a Form 3 disclosing his holdings upon being appointed an executive officer of the Company in November 2006 upon our acquisition of Radiologix, and disclosed the grant of a warrant on April 3, 2007 on such Form 3 rather than on a Form 4. Such Form 3 was however filed within the time permitted for disclosing such grant on Form 4. Based solely on copies of these reports provided to us and written representations that no other reports were required, we believe that except as set forth above, our directors, executive officers and beneficial owners of more than 10% of our common stock met all of the applicable Section 16(a) filing requirements during 2007.

### ITEM 6 EXHIBITS

The list of exhibits filed as part of this report is incorporated by reference to the Index to Exhibits at the end of this report.

26

### 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: August 11, 2008

By /s/ Howard G. Berger, M.D.

-----  
Howard G. Berger, M.D., President and  
Chief Executive Officer  
(Principal Executive Officer)

Date: August 11, 2008

By /s/ Mark D. Stolper

-----  
Mark D. Stolper, Chief Financial Officer  
(Principal Financial and Accounting Officer)

27

### INDEX TO EXHIBITS

EXHIBIT NUMBER	DESCRIPTION
-----	-----
10.1	First amendment to the 2006 Equity Incentive Plan
10.2	Form of warrant recharacterized as under the 2006 Equity Incentive Plan - Form A
10.3	Form of warrant recharacterized as under the 2006 Equity Incentive Plan - Form B
10.4	Warrant To Purchase Shares Of Common Stock between RadNet, Inc. and Derek Bomar, dated January 8, 2007
10.5	Warrant To Purchase Shares Of Common Stock between Primedex Health Systems, Inc. ("Primedex") and Derek Bomar, dated October 20, 2005
10.6	Warrant To Purchase Shares Of Common Stock between Primedex and June W. Chen, dated March 14, 2006



## Edgar Filing: RadNet, Inc. - Form 10-Q

- 10.7 Warrant To Purchase Shares Of Common Stock between Primedex and John V. Crues, dated June 7, 2005
- 10.8 Warrant To Purchase Shares Of Common Stock between Primedex and Lawrence L. Levitt, dated March 28, 2006
- 10.9 Warrant To Purchase Shares Of Common Stock between Primedex and Lawrence L. Levitt, dated March 14, 2005
- 10.10 Warrant To Purchase Shares Of Common Stock between Primedex and Jeffrey L. Linden, dated April 28, 2006
- 10.11 Warrant To Purchase Shares Of Common Stock between Primedex and Jeffrey L. Linden, dated July 30, 2004
- 10.12 Warrant To Purchase Shares Of Common Stock between Primedex and Judith G. Rose, dated June 7, 2005
- 10.13 Warrant To Purchase Shares Of Common Stock between Primedex and Mark Stolper, dated July 30, 2004
- 10.14 Warrant To Purchase Shares Of Common Stock between Primedex and Mark Stolper, dated July 30, 2004
- 10.15 Warrant To Purchase Shares Of Common Stock between Primedex and Mark Stolper, dated March 1, 2004
- 10.16 Warrant To Purchase Shares Of Common Stock between Primedex and Mark Stolper, dated July 11, 2006
- 10.17 Warrant To Purchase Shares Of Common Stock between Primedex and David L. Swartz, dated March 28, 2006
- 10.18 Warrant To Purchase Shares Of Common Stock between Primedex and David L. Swartz, dated July 8, 2005
- 10.19 Warrant To Purchase Shares Of Common Stock between Primedex and David L. Swartz, dated March 1, 2004
- 10.20 Warrant To Purchase Shares Of Common Stock between Primedex and Norman Hames, dated March 27, 2006
- 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 Pursuant to 18 U.S.C. Section 1350, as Adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002 of Howard G. Berger, M.D.
- 32.2 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002 of Mark D. Stolper