RadNet, Inc.
Form 10-Q
November 09, 2018

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2018

OR

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

For the transition period from __________ to __________

Commission File Number 001-33307

RadNet, Inc.

(Exact name of registrant as specified in charter)

Delaware	**13-3326724**
(State or other jurisdiction of	**(I.R.S. Employer**
Incorporation or organization)	**Identification No.)**
1510 Cotner Avenue	
Los Angeles, California	**90025**
(Address of principal executive offices)	**(Zip Code)**

(310) 478-7808

(Registrant's telephone number, including area code)

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
Emerging growth company	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The number of shares of the registrant's common stock outstanding on November 5, 2018 was 48,866,485 shares.

RADNET, INC.

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PART I - FINANCIAL INFORMATION

Item 1 – Financial Statements

RADNET, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS EXCEPT SHARE AND PER SHARE DATA)

	September 30, 2018 (unaudited)	December 31, 2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 27,227	$ 51,322
Accounts receivable, net	156,401	155,518
Due from affiliates	754	2,343
Prepaid expenses and other current assets	40,135	26,168
Assets held for sale	2,499	–
Total current assets	227,016	235,351
PROPERTY AND EQUIPMENT, NET	285,787	244,301
OTHER ASSETS		
Goodwill	274,361	256,776
Other intangible assets	39,010	40,422
Deferred financing costs	1,489	1,895
Investment in joint ventures	42,199	52,435
Deferred tax assets, net of current portion	23,040	30,852
Deposits and other	17,740	6,947
Total assets	$ 910,642	$ 868,979
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable, accrued expenses and other	$ 150,146	$ 135,809
Due to affiliates	14,192	16,387
Deferred revenue	2,959	2,606
Current portion of deferred rent	2,720	2,714
Current portion of notes payable	30,118	30,224
Current portion of obligations under capital leases	3,258	3,866
Total current liabilities	203,393	191,606
LONG-TERM LIABILITIES		
Deferred rent, net of current portion	28,642	26,251
Notes payable, net of current portion	549,802	572,365

Obligations under capital lease, net of current portion	3,162	2,672
Other non-current liabilities	4,356	6,160
Total liabilities	789,355	799,054
EQUITY		
RadNet, Inc. stockholders' equity:		
Common stock - $.0001 par value, 200,000,000 shares authorized; 48,334,925, and 47,723,915 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively	5	5
Additional paid-in-capital	237,072	212,261
Accumulated other comprehensive income (loss)	4,276	(548)
Accumulated deficit	(147,051)	(150,158)
Total RadNet, Inc.'s stockholders' equity	94,302	61,560
Noncontrolling interests	26,985	8,365
Total equity	121,287	69,925
Total liabilities and equity	$910,642	$868,979

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

RADNET, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(IN THOUSANDS EXCEPT SHARE DATA)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
NET REVENUE				
Service fee revenue, net of contractual allowances and discounts		$211,313		$638,119
Provision for bad debts		(11,687)		(35,187)
Net service fee revenue	$217,552	199,626	$641,136	602,932
Revenue under capitation arrangements	24,596	27,981	76,799	83,702
Total net revenue	242,148	227,607	717,935	686,634
OPERATING EXPENSES				
Cost of operations, excluding depreciation and amortization	208,511	198,109	634,200	602,174
Depreciation and amortization	17,480	17,053	53,422	50,319
(Gain) loss on sale and disposal of equipment	(373)	420	(2,204)	828
Severance costs	82	1,186	1,087	1,566
Total operating expenses	225,700	216,768	686,505	654,887
INCOME FROM OPERATIONS	16,448	10,839	31,430	31,747
OTHER INCOME AND EXPENSES				
Interest expense	10,663	10,169	31,343	30,712
Equity in earnings of joint ventures	(2,822)	(3,450)	(9,547)	(8,372)
Gain on sale of imaging centers	–	(845)	–	(3,146)
Other expenses (income)	7	4	13	(236)
Total other expenses	7,848	5,878	21,809	18,958
INCOME BEFORE INCOME TAXES	8,600	4,961	9,621	12,789
Provision for income taxes	(2,827)	(1,112)	(2,835)	(4,177)
NET INCOME	5,773	3,849	6,786	8,612
Net income attributable to noncontrolling interests	734	623	3,679	1,286
NET INCOME ATTRIBUTABLE TO RADNET, INC. COMMON STOCKHOLDERS	$5,039	$3,226	$3,107	$7,326
BASIC NET INCOME PER SHARE ATTRIBUTABLE TO RADNET, INC. COMMON STOCKHOLDERS	$0.10	$0.07	$0.06	$0.16
DILUTED NET INCOME PER SHARE ATTRIBUTABLE TO RADNET, INC. COMMON STOCKHOLDERS	$0.10	$0.07	$0.06	$0.16

WEIGHTED AVERAGE SHARES OUTSTANDING				
Basic	48,010,726	46,953,705	47,937,215	46,760,583
Diluted	48,615,392	47,577,750	48,481,305	47,239,360

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

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RADNET, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(IN THOUSANDS)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
NET INCOME	$5,773	$3,849	$6,786	$8,612
Foreign currency translation adjustments	(91)	16	(65)	38
Change in fair value of cash flow hedge, net of taxes	595	2	4,889	(1,720)
COMPREHENSIVE INCOME	6,277	3,867	11,610	6,930
Less comprehensive income attributable to noncontrolling interests	734	623	3,679	1,286
COMPREHENSIVE INCOME ATTRIBUTABLE TO RADNET, INC. COMMON STOCKHOLDERS	$5,543	$3,244	$7,931	$5,644

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

RADNET, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(IN THOUSANDS EXCEPT SHARE DATA)

(unaudited)

The following table summarizes changes in the Company’s consolidated stockholder’s equity, including noncontrolling interest, during the nine months ended September 30, 2018.

	Common Stock		Additional Paid-In	Accumulated Other Comprehensive (Loss) Income	Accumulated	Total Radnet, Inc.'s	Noncontrolling	Total
	Shares	Amount	Capital		Deficit	Equity	Interests	Equity
BALANCE - JANUARY 1, 2018	47,723,915	$ 5	$ 212,261	$ (548)	$ (150,158)	$ 61,560	$ 8,365	$ 69,925
Issuance of common stock upon exercise of options	5,000	–	10	–	–	10	–	10
Stock-based compensation	–	–	6,264	–	–	6,264	–	6,264
Issuance of restricted stock and other awards	607,160	–	100	–	–	100	–	100
Forfeiture of restricted stock	(1,150)	–	(7)	–	–	(7)	–	(7)
Sale of noncontrolling interests, net of taxes	–	–	15,593	–	–	15,593	25,186	40,779
Special distribution from noncontrolling interest	–	–	2,894	–	–	2,894	(9,175)	(6,281)
Distributions paid to noncontrolling interests	–	–	–	–	–	–	(913)	(913)
Purchase of noncontrolling interests	–	–	(43)	–	–	(43)	(157)	(200)
Change in cumulative foreign currency translation adjustment	–	–	–	(65)	–	(65)	–	(65)

Change in fair value cash flow hedge, net of taxes	–	–	–	4,889	–	4,889	–	4,889
Net income	–	–	–	–	3,107	3,107	3,679	6,786
BALANCE - SEPTEMBER 30, 2018	48,334,925	$ 5	$ 237,072	$ 4,276	$ (147,051)	$ 94,302	$ 26,985	$ 121,287

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

RADNET, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

(unaudited)

	Nine Months Ended September 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$6,786	$8,612
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	53,422	50,319
Provision for bad debts	–	35,187
Equity in earnings of joint ventures	(9,547)	(8,372)
Distributions from joint ventures	21,783	6,785
Amortization deferred financing costs and loan discount	2,924	2,509
(Gain) loss on sale and disposal of equipment	(2,204)	828
Gain on sale of imaging centers	–	(3,146)
Stock-based compensation	6,557	5,842
Non cash severance	–	1,047
Changes in operating assets and liabilities, net of assets acquired and liabilities assumed in purchase transactions:		
Accounts receivable	(9,641)	(38,770)
Other current assets	(5,680)	2,981
Other assets	(1,209)	309
Deferred taxes	1,531	2,031
Deferred rent	2,397	2,137
Deferred revenue	353	428
Accounts payable, accrued expenses and other	20,386	6,857
Net cash provided by operating activities	87,858	75,584
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of imaging facilities	(17,393)	(22,904)
Equity investments at fair value	(2,200)	(500)
Purchase of property and equipment	(62,595)	(52,807)
Proceeds from sale of equipment	2,587	571
Proceeds from sale of imaging and medical practice assets	–	8,429
Cash distribution from new JV partner	–	1,473
Equity contributions in existing and purchase of interest in joint ventures	(2,000)	(80)
Net cash used in investing activities	(81,601)	(65,818)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on notes and leases payable	(4,374)	(5,297)

Proceeds from borrowings	–	170,000
Payments on Term Loan Debt	(24,810)	(188,396)
Distributions paid to noncontrolling interests	(913)	(1,065)
Deferred financing costs and debt discount	–	(5,067)
Proceeds from sale of noncontrolling interest, net of taxes	–	7,726
Contributions from noncontrolling partners	–	125
Purchase of non-controlling interests	(200)	–
Proceeds from revolving credit facility	44,000	139,400
Payments on revolving credit facility	(44,000)	(139,400)
Proceeds from issuance of common stock upon exercise of options	10	–
Net cash used in financing activities	(30,287)	(21,974)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(65)	38
NET DECREASE IN CASH AND CASH EQUIVALENTS	(24,095)	(12,170)
CASH AND CASH EQUIVALENTS, beginning of period	51,322	20,638
CASH AND CASH EQUIVALENTS, end of period	$27,227	$8,468
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the period for interest	$27,136	$29,134

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

RADNET, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

(unaudited)

Supplemental Schedule of Non-Cash Investing and Financing Activities

We acquired equipment and certain leasehold improvements for approximately $14.2 million and $14.4 million during the nine months ended September 30, 2018 and 2017, respectively, which were not paid for as of September 30, 2018 and 2017, respectively. The offsetting amounts due were recorded in our condensed consolidated balance sheet under accounts payable, accrued expenses and other.

During the nine months ended September 30, 2017 we executed, exclusive of commitments assumed through acquisitions, capital lease debt of approximately $5.4 million. No such action was taken for the nine months ended September 30, 2018.

We recorded an investment in joint venture of $3.0 million to ScriptSender, LLC, on January 6, 2017, representing our capital contribution to the venture. The offsetting amount was recorded on the due to affiliates account of ScriptSender, LLC. As of September 30, 2018, the balance remaining to be contributed is approximately $750,000. See Note 2, Significant Accounting Policies Investment in Joint Ventures section to the condensed consolidated financial statements contained herein for further information.

The Company received $15.0 million in fixed assets and assumed $4.0 million in capital lease debt in January 2018 from the Company’s partner in Beach Imaging LLC. See Note 4, Facility Acquisitions and Assets Held for Sale contained herein for further information.

The Company received a one-time special distribution from a controlled subsidiary which resulted in a $9.2 million adjustment to noncontrolling interest and $2.9 million, net of taxes, to the Company’s additional paid in capital account.

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RADNET, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

NOTE 1 – NATURE OF BUSINESS AND BASIS OF PRESENTATION

We are a leading national provider of freestanding, fixed-site outpatient diagnostic imaging services in the United States based on number of locations and annual imaging revenue. At September 30, 2018, we operated directly or indirectly through joint ventures with hospitals, 305 centers located in California, Delaware, Florida, Maryland, New Jersey, and New York. Our centers provide physicians with imaging capabilities to facilitate the diagnosis and treatment of diseases and disorders. Our services include magnetic resonance imaging (MRI), computed tomography (CT), positron emission tomography (PET), nuclear medicine, mammography, ultrasound, diagnostic radiology (X-ray), fluoroscopy and other related procedures. The vast majority of our centers offer multi-modality imaging services. Our multi-modality strategy diversifies revenue streams, reduces exposure to reimbursement changes and provides patients and referring physicians one location to serve the needs of multiple procedures.

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

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

redesign of the entity.

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

We contract with six medical groups which provide professional medical services at all of our facilities in Manhattan and Brooklyn, New York ("the NY Groups"). These contracts are similar to our contract with BRMG. Four of the NY Groups are owned by John V. Crues, III, M.D., RadNet's Medical Director, a member of our Board of Directors, and a 1% owner of BRMG. Dr Berger owns a controlling interest in two of the NY Groups which provide professional medical services at one of our Manhattan facilities.

RadNet provides non-medical, technical and administrative services to BRMG and the NY Groups for which it receives a management fee, pursuant to the related management agreements. Through the management agreements we have exclusive authority over all non-medical decision making related to the ongoing business operations of BRMG and the NY Groups and we determine the annual budget of BRMG and the NY Groups. BRMG and the NY Groups both have insignificant operating assets and liabilities, and de minimis equity. Through management agreements with us, substantially all cash flows of BRMG and the NY Groups after expenses including professional salaries are transferred to us.

We have determined that BRMG and the NY Groups are VIEs, that we are the primary beneficiary, and consequently, we consolidate the revenue and expenses, assets and liabilities of each. BRMG and the NY Groups on a combined basis recognized $33.2 million and $32.4 million of revenue, net of management service fees to RadNet, for the three months ended September 30, 2018 and 2017, respectively, and $33.2 million and $32.4 million of operating expenses for the three months ended September 30, 2018 and 2017, respectively. RadNet recognized in its condensed consolidated statement of operations $126.8 million and $107.1 million of net revenues for the three months ended September 30, 2018, and 2017 respectively, for management services provided to BRMG and the NY Groups relating primarily to the technical portion of total billed revenue.

BRMG and the NY Groups on a combined basis recognized $100.7 million and $101.4 million of revenue, net of management service fees to RadNet, for the nine months ended September 30, 2018 and 2017, respectively, and $100.7 million and $101.4 million of operating expenses for the nine months ended September 30, 2018 and 2017, respectively. RadNet recognized in its condensed consolidated statement of operations $378.7 million and $328.6 million of net revenues for the nine months ended September 30, 2018, and 2017 respectively, for management services provided to BRMG and the NY Groups relating primarily to the technical portion of total billed revenue.

The cash flows of BRMG and the NY Groups are included in the accompanying consolidated statements of cash flows. All intercompany balances and transactions have been eliminated in consolidation. In our consolidated balance sheets at September 30, 2018 and December 31, 2017, we have included approximately $100.6 million and $96.3 million, respectively, of accounts receivable and approximately $14.8 million and $7.4 million of accounts payable and accrued liabilities related to BRMG and the NY Groups.

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

We also own a 49% economic interest in ScriptSender, LLC, which provides secure data transmission services of medical information. Through a management agreement, RadNet provides management and accounting services and receives an agreed upon fee. ScriptSender LLC is dependent on the Company to finance its own activities, and as such

we determined that it is a VIE but we are not a primary beneficiary since we do not have the power to direct the activities of the entity that most significantly impact the entity's economic performance.

At all of our centers we have entered into long-term contracts with radiology groups in the area to provide physician services at those facilities. These radiology practices provide professional services, including supervision and interpretation of diagnostic imaging procedures, in our diagnostic imaging centers. The radiology practices maintain full control over the provision of professional services. In these facilities we enter into long-term agreements with radiology practice groups (typically 40 years). Under these arrangements, in addition to obtaining technical fees for the use of our diagnostic imaging equipment and the provision of technical services, we provide management services and receive a fee based on the value of the services we provide. Except in New York City, the fee is based on the practice group's professional revenue, including revenue derived outside of our diagnostic imaging centers. In New York City we are paid a fixed fee set in advance for our services. We own the diagnostic imaging equipment and, therefore, receive 100% of the technical reimbursements associated with imaging procedures. The radiology practice groups retain the professional reimbursements associated with imaging procedures after deducting management service fees paid to us and we have no financial controlling interest in the radiology practices.

The accompanying unaudited condensed 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 conformity with U.S. generally accepted accounting principles for complete financial statements; however, in the opinion of our management, all adjustments consisting of normal recurring adjustments necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods ended September 30, 2018 and 2017 have been made. The results of operations for any interim period are not necessarily indicative of the results for a full year. These interim condensed 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, 2017.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

During the period covered in this report, there have been no material changes to the significant accounting policies we use and have explained, in our annual report on Form 10-K for the fiscal year ended December 31, 2017. The information below is intended only to supplement the disclosure in our annual report on Form 10-K for the fiscal year ended December 31, 2017.

On January 1, 2018, the Company adopted the new revenue recognition accounting standard issued by the Financial Accounting Standards Board (“FASB”) and codified in the ASC as topic 606 (“ASC 606”). The revenue recognition standard in ASC 606 outlines a single comprehensive model for recognizing revenue as performance obligations, defined in a contract with a customer as goods or services transferred to the customer in exchange for consideration, are satisfied. The standard also requires expanded disclosures regarding the Company’s revenue recognition policies and significant judgments employed in the determination of revenue.

REVENUES - The Company applied the modified retrospective approach to all contracts when adopting ASC 606. As a result, at the adoption of ASC 606 the majority of what was previously classified as the provision for bad debts in the statement of operations is now reflected as implicit price concessions (as defined in ASC 606) and therefore included as a reduction to net operating revenues in 2018. For changes in credit issues not assessed at the date of service, the Company will prospectively recognize those amounts in other operating expenses on the statement of operations. For periods prior to the adoption of ASC 606, the provision for bad debts has been presented consistent with the previous revenue recognition standards that required it to be presented separately as a component of net operating revenues. Additionally, upon adoption of ASC 606 the allowance for doubtful accounts of approximately $13.6 million as of January 1, 2018 was reclassified as a component of net patient accounts receivable. Other than these changes in presentation on the condensed consolidated statement of operations and condensed consolidated balance sheet, the adoption of ASC 606 did not have a material impact on the consolidated results of operations for the three and nine months ended September 30, 2018, and the Company does not expect it to have a material impact on its consolidated results of operations for the remainder of 2018 and on a prospective basis.

Our revenues generally relate to net patient fees received from various payers and patients themselves under contracts in which our performance obligations are to provide diagnostic services to the patients. Revenues are recorded during the period our obligations to provide diagnostic services are satisfied. Our performance obligations for diagnostic services are generally satisfied over a period of less than one day. The contractual relationships with patients, in most cases, also involve a third-party payer (Medicare, Medicaid, managed care health plans and commercial insurance companies, including plans offered through the health insurance exchanges) and the transaction prices for the services provided are dependent upon the terms provided by (Medicare and Medicaid) or negotiated with (managed care health plans and commercial insurance companies) the third-party payers. The payment arrangements with third-party payers for the services we provide to the related patients typically specify payments at amounts less than our standard charges and generally provide for payments based upon predetermined rates per diagnostic services or discounted fee-for-service rates. Management continually reviews the contractual estimation process to consider and incorporate updates to laws and regulations and the frequent changes in managed care contractual terms resulting from contract renegotiations and renewals.

As it relates to BRMG centers, this service fee revenue includes payments for both the professional medical interpretation revenue recognized by BRMG as well as the payment for all other aspects related to our providing the imaging services, for which we earn management fees from BRMG. As it relates to non-BRMG centers, this service fee revenue is earned through providing the use of our diagnostic imaging equipment and the provision of technical services as well as providing administration services such as clerical and administrative personnel, bookkeeping and accounting services, billing and collection, provision of medical and office supplies, secretarial, reception and transcription services, maintenance of medical records, and advertising, marketing and promotional activities.

Our revenues are based upon the estimated amounts we expect to be entitled to receive from patients and third-party payers. Estimates of contractual allowances under managed care and commercial insurance plans are based upon the payment terms specified in the related contractual agreements. Revenues related to uninsured patients and uninsured copayment and deductible amounts for patients who have health care coverage may have discounts applied (uninsured discounts and contractual discounts). We also record estimated implicit price concessions (based primarily on historical collection experience) related to uninsured accounts to record self-pay revenues at the estimated amounts we expect to collect.

As part of the adoption of ASC 606, the Company elected two of the available practical expedients provided for in the standard. First, the Company did not adjust the transaction price for any financing components as those were deemed to be insignificant. Additionally, the Company expensed all incremental customer contract acquisition costs as incurred as such costs are not material and would be amortized over a period less than one year.

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

The Company's total net revenues during the three and nine months ended September 30, 2018 and 2017 are presented in the table below based on an allocation of the estimated transaction price with the patient between the primary patient classification of insurance coverage (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Commercial insurance	$144,731	$140,956	$426,710	$424,639
Medicare	49,292	47,941	145,158	143,234
Medicaid	6,461	6,233	19,645	19,491
Workers' compensation/personal injury	9,002	8,626	26,407	26,550
Other [(1)]	8,066	7,557	23,216	24,205
Service fee revenue, net of contractual allowances and discounts	217,552	211,313	641,136	638,119
Provision for bad debts	–	(11,687)	–	(35,187)
Net service fee revenue	217,552	199,626	641,136	602,932
Revenue under capitation arrangements	24,596	27,981	76,799	83,702
Total net revenue	$242,148	$227,607	$717,935	$686,634

(1) Other consists of revenue from teleradiology services, consulting fees and software revenue.

The collection of outstanding receivables for Medicare, Medicaid, managed care payers, other third-party payers and patients is our primary source of cash and is critical to our operating performance. The primary collection risks relate to uninsured patient accounts, including patient accounts for which the primary insurance carrier has paid the amounts covered by the applicable agreement, but patient responsibility amounts (deductibles and copayments) remain outstanding. Implicit price concessions relate primarily to amounts due directly from patients. Estimated implicit price concessions are recorded for all uninsured accounts, regardless of the aging of those accounts. Accounts are written off when all reasonable internal and external collection efforts have been performed.

The estimates for implicit price concessions are based upon management's assessment of historical write offs and expected net collections, business and economic conditions, trends in federal, state and private employer health care coverage and other collection indicators. Management relies on the results of detailed reviews of historical write offs and collections at facilities that represent a majority of our revenues and accounts receivable (the "hindsight analysis") as a primary source of information in estimating the collectability of our accounts receivable. We perform the hindsight analysis quarterly and believe our quarterly updates to the estimated implicit price concession amounts provide reasonable estimates of our revenues and valuations of our accounts receivable. These routine, quarterly changes in estimates have not resulted in material adjustments to the valuations of our accounts receivable or period-to-period comparisons of our results of operations.

RECLASSIFICATION – We have reclassified certain amounts within other income and expenses for 2017 to conform to our 2018 presentation.

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

On June 30, 2018, we entered into a factoring arrangement with a third party and sold certain accounts receivable under a non-recourse agreement. The amount factored under this agreement was $10.5 million and the cost of factoring was approximately $440,000. Proceeds will be received as a combination of cash and payments on a note receivable through August of 2020 bearing an annual rate of 4%, and will be reflected as operating activities on our statement of cash flows and on our balance sheet as prepaid expenses and other current assets for the current portion and deposits and other for the long term portion. We do not utilize factoring arrangements as an integral part of our financing for working capital.

DEFERRED FINANCING COSTS - Costs of financing are deferred and amortized on a straight-line basis over the life of the associated loan, which approximates the effective interest rate method. Deferred financing costs, net of accumulated amortization, were $1.5 million and $1.9 million, as of September 30, 2018 and December 31, 2017, respectively and related to the Company's line of credit. See Note 5, Revolving Credit Facility, Notes Payable, and Capital Leases for more information.

INVENTORIES - Inventories, consisting mainly of medical supplies, are stated at the lower of cost or net realizable value with cost determined by the first-in, first-out method.

PROPERTY AND EQUIPMENT - Property and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization of property and equipment are provided using the straight-line method over the estimated useful lives, which range from 3 to 15 years. Leasehold improvements are amortized at the lesser of lease term or their estimated useful lives, which range from 3 to 30 years. Maintenance and repairs are charged to expense as incurred.

BUSINESS COMBINATION - In January 2017, the FASB issued ASU No. 2017-01 ("ASU 2017-01"), *Clarifying the Definition of a Business*. The update provides a framework for evaluating whether a transaction should be accounted for as an acquisition and/or disposal of a business versus assets. In order for a purchase to be considered an acquisition of a business, and receive business combination accounting treatment, the set of transferred assets and activities must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. If substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets, then the set of transferred assets and activities is not a business. The adoption of this standard requires future purchases to be evaluated under the new framework. The impact on our financial statements as a result of this adoption was immaterial.

When the qualifications for business combination accounting treatment are met, it requires us to recognize separately from goodwill the assets acquired and the liabilities assumed at their acquisition date fair values. Goodwill as of the acquisition date is measured as the excess of consideration transferred over the net of the acquisition date fair values of the assets acquired and the liabilities assumed. While we use our best estimates and assumptions to accurately value assets acquired and liabilities assumed at the acquisition date, our estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, we record adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to our consolidated statements of operations.

GOODWILL- Goodwill at September 30, 2018 totaled $274.4 million. Goodwill is recorded as a result of business combinations. Management evaluates goodwill at a minimum, on an annual basis and whenever events and changes in circumstances suggest that the carrying amount may not be recoverable. We tested goodwill for impairment on October 1, 2017, noting no impairment, and have not identified any indicators of impairment through September 30, 2018. Activity in goodwill for the nine months ended September 30, 2018 is provided below (in thousands):

Balance as of December 31, 2017	$256,776
Goodwill acquired through the acquisition of Imaging Services Company of New York, LLC	2,692
Goodwill acquired through the acquisition of certain assets of MemorialCare Medical Foundation	10,158
Goodwill transferred to assets held for sale	(1,059)
Goodwill acquired through the acquisition of Women's Imaging Specialists in Healthcare	4,089
Goodwill acquired through the acquisition of Valley Metabolic Imaging	1,469
Goodwill acquired through the acquisition of Sierra Imaging Associates	1,147
Adjustment to our preliminary allocation of the purchase price of Women's Imaging Specilists in Healthcare	179
Adjustment to our preliminary allocation of purchase price of MemorialCare Medical Foundation	(3,313)
Goodwill disposed through the sale of plastic surgery unit	(80)
Goodwill acquired through the acquisition of Washington Heights Medical Management	2,303
Balance as of September 30, 2018	$274,361

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

The Company recorded an income tax expense of $2.8 million, or an effective tax rate of 32.9%, for the three months ended September 30, 2018 compared to income tax expense for the three months ended September 30, 2017 of $1.1 million, or an effective tax rate of 22.4%. The Company recorded an income tax expense of $2.8 million, or an effective tax rate of 29.5% for the nine months ended September 30, 2018 compared to income tax expense for the nine months ended September 30, 2017 of $4.2 million, or an effective tax rate of 32.7%. The income tax rates for the three and nine months ended September 30, 2018 diverge from the federal statutory rate primarily due to (i) noncontrolling interests due to the controlled partnerships; (ii) effects of state income taxes; (iii) excess tax benefits attributable to share-based compensation; and adjustments associated with uncertain tax positions.

U.S. GAAP requires that the impact of tax legislation be recognized in the period in which the law was enacted. As a result, the Company recorded provisional amounts due to the revaluation of deferred tax assets and liabilities and the

transition tax on deemed repatriation of accumulated foreign income during the year ended December 31, 2017. Both of these tax charges represent provisional amounts and the Company's current best estimates. Any adjustments recorded to the provisional amounts will be included as an adjustment to tax expense. The provisional amounts incorporate assumptions made based upon the Company's current interpretation of the Tax Reform Act and may change as the Company receives additional clarification and implementation guidance.

The Company is not under examination in any jurisdiction and the years ended December 31, 2017, 2016, and 2015 remain subject to examination. The Company believes no significant changes in the unrecognized tax benefits will occur within the next 12 months.

EQUITY BASED COMPENSATION – We have one long-term incentive plan that we adopted in 2006 and which we first amended and restated as of April 20, 2015, and again on March 9, 2017 (the "Restated Plan"). The Restated Plan was approved by our stockholders at our annual stockholders meeting on June 8, 2017. We have reserved for issuance under the Restated Plan 14,000,000 shares of common stock. We can issue options, stock awards, stock appreciation rights, stock units and cash awards under the Restated Plan. Certain options granted under the Restated Plan to employees are intended to qualify as incentive stock options under existing tax regulations. Stock options and warrants generally vest over three to five years and expire five to ten years from date of grant. The compensation expense recognized for all equity-based awards is recognized over the awards' service periods. Equity-based compensation is classified in operating expenses within the same line item as the majority of the cash compensation paid to employees. See Note 6 Stock-Based Compensation for more information.

COMPREHENSIVE INCOME - ASC 220, *Comprehensive Income,* establishes rules for reporting and displaying comprehensive income and its components. Our unrealized gains or losses on foreign currency translation adjustments and our interest rate cap agreement are included in comprehensive income. The components of comprehensive income for the three and nine months in the period ended September 30, 2018 are included in the consolidated statements of comprehensive income.

DERIVATIVE INSTRUMENTS - In the fourth quarter of 2016, we entered into two forward interest rate cap agreements ("2016 Caps"). The 2016 Caps will mature in September and October 2020. The 2016 Caps had notional amounts of $150,000,000 and $350,000,000, respectively, which were designated at inception as cash flow hedges of future cash interest payments associated with portions of the our variable rate bank debt. Under these arrangements, the Company purchased a cap on 3 month LIBOR at 2.0%. We are liable for a $5.3 million premium to enter into the caps which is being accrued over the life of the agreements.

At inception, we designated our 2016 Caps as cash flow hedges of floating-rate borrowings. In accordance with ASC Topic 815, derivatives that have been designated and qualify as cash flow hedging instruments are reported at fair value. The gain or loss of the hedge (i.e. change in fair value) is reported as a component of accumulated other comprehensive income in the consolidated statement of equity. See Fair Value Measurements section below for the fair value of the 2016 Caps at September 30, 2018.

A tabular presentation of the effect of derivative instruments on our consolidated statement of comprehensive loss is as follows (amounts in thousands):

For the three months ended September 30, 2018

Account	July 1, 2018 Balance	Amount of gain recognized on derivative	September 30, 2018 Balance	Location
Other Comprehensive Income	3,924	595	4,519	Current Assets & Equity

For the nine months ended September 30, 2018

Account	Jan 1, 2018 Balance		Amount of gain recognized on derivative	September 30, 2018 Balance	Location
Other Comprehensive Income	(370	)	4,889	4,519	Current Assets & Equity

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

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

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

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

The table below summarizes the estimated fair values of certain of our financial assets that are subject to fair value measurements, and the classification of these assets on our consolidated balance sheets, as follows (in thousands):

	As of September 30, 2018			
	Level 1	Level 2	Level 3	Total
Current assets				
Interest Rate Contracts	$–	$5,954	$ –	$5,954

	As of December 31, 2017			
	Level 1	Level 2	Level 3	Total
Current assets				
Interest Rate Contracts	$–	$(595)	$ –	$(595)

The estimated fair value of these contracts was determined using Level 2 inputs. More specifically, the fair value was determined by calculating the value of the difference between the fixed interest rate of the interest rate swaps and the counterparty's forward LIBOR curve. The forward LIBOR curve is readily available in the public markets or can be derived from information available in the public markets.

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

	As of September 30, 2018				
	Level 1	Level 2	Level 3	Total Fair Value	Total Face Value
First Lien Term Loans	$–	$599,927	$ –	$599,927	$595,461

	As of December 31, 2017				
	Level 1	Level 2	Level 3	Total	Total Face Value
First Lien Term Loans	$–	$628,801	$–	$628,801	$620,272

As of December 31, 2017 and September 30, 2018, our revolving credit facility had no aggregate principal amount outstanding.

The estimated fair value of our long-term debt, which is discussed in Note 5, was determined using Level 2 inputs primarily related to comparable market prices.

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

EARNINGS PER SHARE - Earnings per share is based upon the weighted average number of shares of common stock and common stock equivalents outstanding, net of common stock held in treasury, as follows (in thousands except share and per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income (loss) attributable to RadNet, Inc.'s common stockholders	$5,039	$3,226	$3,107	$7,326
BASIC NET INCOME (LOSS) PER SHARE ATTRIBUTABLE TO RADNET, INC.'S COMMON STOCKHOLDERS				
Weighted average number of common shares outstanding during the period	48,010,726	46,953,705	47,937,215	46,760,583
Basic net income (loss) per share attributable to RadNet, Inc.'s common stockholders	$0.10	$0.07	$0.06	$0.16
DILUTED NET INCOME (LOSS) PER SHARE ATTRIBUTABLE TO RADNET, INC.'S COMMON STOCKHOLDERS				
Weighted average number of common shares outstanding during the period	48,010,726	46,953,705	47,937,215	46,760,583
Add nonvested restricted stock subject only to service vesting	424,397	315,830	372,462	237,595
Add additional shares issuable upon exercise of stock options and warrants	180,269	308,216	171,627	241,183
Weighted average number of common shares used in calculating diluted net income per share	48,615,392	47,577,750	48,481,305	47,239,360
Diluted net income (loss) per share attributable to RadNet, Inc.'s common stockholders	$0.10	$0.07	$0.06	$0.16
Stock options excluded from the computation of diluted per share amounts:				
Weighted average shares for which the exercise price exceeds average market price of common stock	–	–	8,333	225,050

EQUITY INVESTMENTS AT FAIR VALUE– In January 2016, the FASB issued ASU 2016-01, which amends the measurement, presentation and disclosure requirements for equity investments, other than those accounted for under the equity method or that require consolidation of the investee. The ASU eliminates the classification of equity investments as available-for-sale with any changes in fair value of such investments recognized in other comprehensive income, and requires entities to measure equity investments at fair value, with any changes in fair

value recognized in net income. If there is no readily determinable fair value, the guidance allows entities the ability to measure investments at cost less impairment, whereby impairment is based on a qualitative assessment. We adopted this ASU on January 1, 2018, and there was no cumulative effect of adoption.

As of September 30, 2018, we have two equity investments for which a fair value is not readily determinable and therefore the total amounts invested are recognized at cost as follows:

Medic Vision:

Medic Vision, based in Israel, specializes in software packages that provide compliant radiation dose structured reporting and enhanced images from reduced dose CT scans.

On March 24, 2017, we acquired an initial 12.5% equity interest in Medic Vision – Imaging Solutions Ltd for $1.0 million. We also received an option to exercise warrants to acquire up to an additional 12.5% equity interest for $1.4 million within one year from the initial share purchase date, if exercised in full. On March 1, 2018 we exercised our warrant in part and acquired an additional 1.96% for $200,000. Our initial equity interest has been diluted to 12.25% and our total equity investment stands at 14.21%.

In accordance with accounting guidance, as we exercise no significant influence over Medic Vision's operations, the investment is recorded at its cost of $1.2 million, given that the fair value is not readily determinable. No impairment in our investment was noted as of the nine months ended September 30, 2018.

Turner Imaging:

Turner Imaging Systems, based in Utah, develops and markets portable X-ray imaging systems that provide a user the ability to acquire X-ray images wherever and whenever they are needed. On February 1, 2018, we purchased 2.1 million preferred shares in Turner Imaging Systems for $2.0 million. No impairment in our investment was noted for the nine months ended September 30, 2018.

INVESTMENT IN JOINT VENTURES – We have 15 unconsolidated joint ventures with ownership interests ranging from 25% to 55%. 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, since RadNet does not have a controlling financial interest in such ventures. We evaluate our investment in joint ventures, including cost in excess of book value (equity method goodwill) for impairment whenever indicators of impairment exist. No indicators of impairment existed as of September 30, 2018.

Formation of a joint venture:

On April 12, 2018 we acquired a 25% economic interest in Nulogix, Inc. for $2.0 million. The Company and Nulogix will collaborate on projects to improve practices in the imaging industry. As we do not have a controlling economic interest in Nulogix, the investment is accounted for under the equity method.

Joint venture investment and financial information

The following table is a summary of our investment in joint ventures during the nine months ended September 30, 2018 (in thousands):

Balance as of December 31, 2017	$52,435
Equity in earnings in these joint ventures	9,547
Distribution of earnings	(21,783)
Equity contributions in existing and purchase of interest in joint ventures	2,000
Balance as of September 30, 2018	$42,199

We charged management service fees from the centers underlying these joint ventures of approximately $3.5 million and $3.3 million for the quarters ended September 30, 2018 and 2017, respectively and $10.6 million and $9.9 million for the nine months ended September 30, 2018 and 2017 respectively. We eliminate any unrealized portion of our management service fees with our equity in earnings of joint ventures.

The following table is a summary of key balance sheet data for these joint ventures as of September 30, 2018 and December 31, 2017 and income statement data for the nine months ended September 2018 and 2017 (in thousands):

Balance Sheet Data:	September 30, 2018	December 31, 2017
Current assets	$45,345	$47,813
Noncurrent assets	107,228	107,481
Current liabilities	(13,220)	(16,655)
Noncurrent liabilities	(65,686)	(42,072)
Total net assets	$73,667	$96,567
Book value of RadNet joint venture interests	$34,210	$45,935
Cost in excess of book value of acquired joint venture interests	7,989	6,500
Total value of Radnet joint venture interests	$42,199	$52,435
Total book value of other joint venture partner interests	$39,457	$50,632

Income statement data for the nine months ended September 30,	2018	2017
Net revenue	$136,413	$133,108
Net income	$20,271	$16,034

NOTE 3 – RECENT ACCOUNTING AND REPORTING STANDARDS

Accounting standards not yet adopted

In February 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-02 ("ASU 2016-02"), *Leases,* (Topic 842): Amendments to the FASB Accounting Standards Codification. ASU 2016-02 amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. The new standard requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. Subsequently, in July 2018, the FASB issued ASU No. 2018-10, *Codification Improvements to Topic 842, Leases,* and ASU No. 2018-11, *Targeted Improvement,* to clarify and amend the guidance in ASU No. 2016-02. The amendments in this update are effective for fiscal years (and interim reporting periods within fiscal years) beginning after December 15, 2018, with early adoption permitted for all entities. We will adopt the ASU on January 1, 2019. Because of the number of leases we use to support our operations, the adoption of this ASU is expected to have a significant impact on the Company's consolidated financial statements. Management is currently evaluating the extent

of this anticipated impact on our consolidated financial position and results of operations, and the quantitative and qualitative factors that will impact the Company as part of the adoption of this ASU, as well as any changes to its leasing strategy that may occur because of the changes to the accounting and recognition of leases.

In October 2018, the FASB issued ASU No. 2018-16 (“ASU 2018-16”), *Derivatives and Hedging.* ASU 2018-16 expands the permissible benchmark interest rates to include the Secured Overnight Financing Rate (SOFR) to be eligible as a U.S. benchmark interest rate for purposes of applying hedge accounting under Topic 815, Derivatives and Hedging. This ASU is effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption is permitted if an entity already has adopted Update 2017-12. The amendments should be adopted on a prospective basis for qualifying new or redesignated hedging relationship entered into on or after the date of adoption. As we have previously adopted the amendments in Update 2017-12, and as the benchmark rate on our term loan debt does not utilize the SOFR, the immediate adoption of this amendment will have no effect on the Company’s results of operations, financial position and cash flows.

In August 2018, the FASB issued ASU No. 2018-15 (“ASU 2018-15”), *Intangibles-Goodwill and Other-Internal-Use Software.* ASU 2018-15 aligns the requirements for deferring implementation costs incurred in a cloud computing arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. This ASU is effective in the first quarter of 2020 with early adoption permitted and can be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. We are currently assessing the impact of the adoption of this ASU on the Company’s results of operations, financial position and cash flows.

In February 2018, the FASB issued ASU No. 2018-02 (“ASU 2018-02”), *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. ASU 2018-02 allows for the reclassification of certain income tax effects related to the Tax Cuts and Jobs Act between “Accumulated other comprehensive income” and “Retained earnings.” This ASU relates to the requirement that adjustments to deferred tax liabilities and assets related to a change in tax laws or rates to be included in “Income from continuing operations”, even in situations where the related items were originally recognized in “Other comprehensive income” (rather than in “Income from continuing operations”). Subsequently, in March 2018, the FASB issued ASU No. 2018-05, *Income Taxes,* to clarify and amend guidance in ASU 2018-02. ASU 2018-02 and ASU 2018-05 are effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption permitted. Adoption of this ASU is to be applied either in the period of adoption or retrospectively to each period in which the effect of the change in the tax laws or rates were recognized. We are evaluating the effect of this guidance.

In January 2017, the FASB issued ASU No. 2017-04 (“ASU 2017-04”), *Simplifying the Test for Goodwill Impairment*. ASU 2017-04 eliminates the requirement to calculate the implied fair value of goodwill (i.e., Step 2 of the current goodwill impairment test) to measure a goodwill impairment charge. Instead, entities will record an impairment charge based on the excess of a reporting unit’s carrying amount over its fair value (i.e., measure the charge based on the current Step 1). ASU 2017-04 is effective for annual and any interim impairment tests for periods beginning after December 15, 2019, with early adoption permitted. We are evaluating the effect of this guidance.

Other reporting disclosure topics

In August 2018, the SEC adopted the final rule under SEC Release No. 33-10532, Disclosure Update and Simplification, that expanded the disclosure requirements on the analysis of stockholders' equity for interim financial statements. Under the SEC Release, an analysis of changes in each caption of stockholders' equity presented in the balance sheet must be provided in a note or separate statement. The analysis should present a reconciliation of the beginning balance to the ending balance of each period for which a statement of comprehensive income is required to be filed. This final rule is effective on November 5, 2018. However, as provided for by the SEC in Q&A 105.09, the Company will defer presenting its analysis of stockholders’ equity in its quarterly report in Form 10-Q until its quarter ended March 31, 2019.

NOTE 4 – FACILITY ACQUISITIONS AND ASSETS HELD FOR SALE

Acquisitions

On January 1, 2018 we formed Beach Imaging Group, LLC ("Beach Imaging") and contributed the operations of 24 imaging facilities spread across southern Los Angeles and Orange Counties. On the same day, MemorialCare Medical Foundation contributed $22.3 million in cash, $7.6 million in fixed assets, $7.4 million in equipment, and $6.8 million in goodwill. As a result of the transaction, the Company will retain a 60% controlling interest in Beach Imaging and MemorialCare Medical Foundation will retain a 40% noncontrolling interest in Beach Imaging.

On February 22, 2018 we completed our acquisition of certain assets of Imaging Services Company of New York, LLC, consisting of a single multi-modality center located in New York, New York, for purchase consideration of $5.8 million. We have made a fair value determination of the acquired assets and approximately $874,000 in fixed assets, $2.1 million in equipment, a $100,000 covenant not to compete, and $2.7 million in goodwill were recorded.

On April 1, 2018 we completed our acquisition of certain assets of Women's Imaging Specialists in Healthcare, consisting of a single multi-modality center located in the city of Fresno California, for purchase consideration of $5.1 million in cash. We have made a fair value determination of the acquired assets and approximately $635,800 of fixed assets and equipment, $143,000 in intangible covenants not to compete, $53,000 in intangible trade name, and $4.3 million in goodwill were recorded.

On April 1, 2018 we completed our acquisition of certain assets of Valley Metabolic Imaging LLC, consisting of a single multi-modality center located in Fresno, California, for purchase consideration of $1.7 million in cash. We have made a preliminary fair value determination of the acquired assets and approximately $22,000 of fixed assets and equipment, $183,000 in intangible covenants not to compete, and $1.5 million in goodwill were recorded.

On April 1, 2018 we completed our acquisition of certain assets of Sierra Imaging Associates LLC, consisting of a single multi-modality center located in Clovis, California, for purchase consideration of $1.5 million in cash. We have made a preliminary fair value determination of the acquired assets and approximately $270,000 of fixed assets and equipment, $83,000 in intangible covenants not to compete, and $1.1 million in goodwill were recorded.

On September 1, 2018 we completed our acquisition of certain assets of Washington Heights Medical Management, LLC, consisting of a multi-modality imaging center located in New York, New York, for $3.3 million in cash. We have made an initial fair value determination of the acquired assets and approximately $43,000 security deposits, $650,000 of leasehold improvements, $254,000 of equipment, $50,000 in a covenant not to compete, and $2.3 million of goodwill were recorded.

Assets held for sale:

Effective January 1, 2018 we agreed to sell certain assets of four women’s imaging centers to MemorialCare Medical Foundation. The sale is anticipated within the next 12 months. The following table summarizes the major categories of assets which remain classified as held for sale in the accompanying condensed consolidated balance sheets at September 30, 2018 (in thousands):

Property and equipment, net	$1,440
Goodwill	1,059
Total assets held for sale	$2,499

NOTE 5 – REVOLVING CREDIT FACILITY, NOTES PAYABLE AND CAPITAL LEASES

Revolving credit facility, notes payable, and capital lease obligations:

As of the nine months ended September 30, 2018 our debt obligations consist of the following (in thousands):

Notes payable, long-term debt, line of credit and capital lease obligations consist of the following (in thousands):

	September 30, 2018	December 31, 2017
First Lien Term Loans	595,461	620,272
Discounts on first lien term loans	(15,951)	(18,470)
Promissory note payable to the former owner of a practice acquired at an interest rate of 1.5% due through 2019	298	592
Equipment notes payable at interest rates ranging from 5.2% to 5.6%, due through 2020, collateralized by medical equipment	112	195
Obligations under capital leases at interest rates ranging from 3.7% to 9.3%, due through 2022, collateralized by medical and office equipment	6,420	6,538
Total debt obligations	586,340	609,127
Less: current portion	(33,376)	(34,090)
Long term portion debt obligations	$552,964	$575,037

Term Loans, Revolving Credit Facility and Financing Activity Information:

At September 30, 2018, our credit facilities were comprised of one tranche of term loans ("First Lien Term Loans") and a revolving credit facility of $117.5 million (the "Revolving Credit Facility"), both of which are provided pursuant to the Amended and Restated First Lien Credit and Guaranty Agreement dated as of July 1, 2016 (as amended, the "First Lien Credit Agreement"). As of September 30, 2018, we were in compliance with all covenants under our credit facilities.

The balance of our First Lien Term Loans at September 30, 2018, net of unamortized discounts of $15.9 million, was $579.5 million.

Deferred financing costs at September 30, 2018, net of accumulated amortization, was $1.5 million and is specifically related to our Revolving Credit Facility.

We had no balance on our Revolving Credit Facility at September 30, 2018 but had reserved $6.3 million for certain letters of credit. The remaining $111.2 million of our revolving credit facility was available to draw upon as of September 30, 2018.

The following describes our recent financing activities:

Amendment No. 5, Consent and Incremental Joinder Agreement to Credit and Guaranty Agreement

On August 22, 2017, we entered into Amendment No. 5, Consent and Incremental Joinder Agreement to Credit and Guaranty Agreement (the "Fifth Amendment") with respect to our First Lien Credit Agreement. Pursuant to the Fifth Amendment, we issued $170.0 million in incremental First Lien Term Loans, the proceeds of which were used to repay in full all outstanding Second Lien Term Loans and all other obligations under the Second Lien Credit Agreement (as defined below).

Pursuant to the Fifth Amendment, we also changed the interest rate margin applicable to borrowings under the First Lien Credit Agreement. While borrowings under the First Lien Credit Agreement continue to bear interest at either an Adjusted Eurodollar Rate or a Base Rate (in each case, as more fully defined in the First Lien Credit Agreement) or a combination of both, at the election of the Company, plus an applicable margin. The applicable margin for Adjusted

Eurodollar Rate borrowings and Base Rate borrowings was changed from 3.25% and 2.25%, respectively, to 3.75% and 2.75%, respectively, through an initial period which ended when financial reporting was delivered for the period ended September 30, 2017. Thereafter, the rates of the applicable margin for borrowing under the First Lien Credit Agreement adjust depending on our leverage ratio, according to the following schedule:

First Lien Leverage Ratio	**Eurodollar Rate Spread**	**Base Rate Spread**
> 5.50x	4.50%	3.50%
> 4.00x but ≤ 5.50x	3.75%	2.75%
>3.50x but ≤ 4.00x	3.50%	2.50%
≤ 3.50x	3.25%	2.25%

At September 30, 2018 the effective Adjusted Eurodollar Rate and the Base Rate for the First Lien Term Loans was 2.35% and 5.0%, respectively and the applicable margin for Adjusted Eurodollar Rate and Base Rate borrowings was 3.75% and 2.75%, respectively.

Pursuant to the Fifth Amendment, the First Lien Credit Agreement was amended so that we can elect to request 1) an increase to the existing Revolving Credit Facility and/or 2) additional First Lien Term Loans, provided that the aggregate amount of such increases and additions does not exceed (a) $100.0 million and (b) as long as the First Lien Leverage Ratio (as defined in the First Lien Credit Agreement) would not exceed 4.00:1.00 after giving effect to such incremental facilities, an uncapped amount of incremental facilities, in each case subject to the conditions and limitations set forth in the First Lien Credit Agreement. Each lender approached to provide all or a portion of any incremental facility may elect or decline, in its sole discretion, to provide an incremental commitment or loan.

Pursuant to the Fifth Amendment, the First Lien Credit Agreement was also amended to (i) provide for quarterly payments of principal of the First Lien Term Loans in the amount of approximately $8.3 million, as compared to approximately $6.1 million prior to the Fifth Amendment, (ii) extend the call protection provided to the holders of the First Lien Term Loans for a period of twelve months following the date of the Fifth Amendment and (iii) provide us with additional operating flexibility, including the ability to incur certain additional debt and to make certain additional restricted payments, investments and dispositions, in each case as more fully set forth in the Fifth Amendment. Total issue costs for the Fifth Amendment aggregated to approximately $4.7 million. Of this amount, $4.1 million was identified and capitalized as discount on debt, $350,000 was capitalized as deferred financing costs and the remaining $235,000 was expensed. Amounts capitalized will be amortized over the remaining term of the agreement.

Fourth Amendment to First Lien Credit Agreement

On February 2, 2017, we entered into Amendment No. 4 to Credit and Guaranty Agreement (the “Fourth Amendment”) with respect to our First Lien Credit Agreement. Pursuant to the Fourth Amendment, the interest rate margin per annum on the First Lien Term Loans and the Revolving Credit Facility was reduced by 50 basis points, from 3.75% to 3.25%. Except for such reduction in the interest rate on credit extensions, the Fourth Amendment did not result in any other material modifications to the First Lien Credit Agreement. RadNet incurred expenses for the transaction in the amount of $543,000, which was recorded to discount on debt and will be amortized over the remaining term of the agreement.

The following describes our applicable financing prior to giving effect to the Fourth Amendment and Fifth Amendment discussed above.

First Lien Credit Agreement

On July 1, 2016, we entered into the First Lien Credit Agreement pursuant to which we amended and restated our then existing first lien credit facilities. Pursuant to the First Lien Credit Agreement, we originally issued $485 million of First Lien Term Loans and established the $117.5 million Revolving Credit Facility. Proceeds from the First Lien Credit Agreement were used to repay the previously outstanding first lien loans under the First Lien Credit Agreement, make a $12.0 million principal payment of the Second Lien Term Loans, pay costs and expenses related to the First Lien Credit Agreement and provide approximately $10.0 million for general corporate purposes.

Interest. Prior to the Fourth Amendment and Fifth Amendment, the interest rates payable on the First Lien Term Loans were (a) the Adjusted Eurodollar Rate (as defined in the First Lien Credit Agreement) plus 3.75% per annum or

(b) the Base Rate (as defined in the First Lien Credit Agreement) plus 2.75% per annum. As applied to the First Lien Term Loans, the Adjusted Eurodollar Rate has a minimum floor of 1.0%.

Payments. Prior to the Fourth Amendment and Fifth Amendment, the scheduled quarterly principal payment of the First Lien Term Loans was approximately $6.1 million, with the balance due at maturity.

Maturity Date. The maturity date for the First Lien Term Loans shall be on the earliest to occur of (i) July 1, 2023, (ii) the date on which all First Lien Term Loans shall become due and payable in full under the First Lien Credit Agreement, whether by acceleration or otherwise, and (iii) September 25, 2020 if our indebtedness under the Second Lien Credit Agreement had not been repaid, refinanced or extended prior to such date.

Revolving Credit Facility: The First Lien Credit Agreement provides for a $117.5 million Revolving Credit Facility. Revolving loans borrowed under the Revolving Credit Facility bear interest at either an Adjusted Eurodollar Rate or a Base Rate (in each case, as more fully defined in the First Lien Credit Agreement), plus an applicable margin. Pursuant to the Fifth Amendment, the applicable margin was amended to vary based on our leverage ratio in accordance with the following schedule:

First Lien Leverage Ratio	**Eurodollar Rate Spread**	**Base Rate Spread**
> 5.50x	4.50%	3.50%
> 4.00x but ≤ 5.50x	3.75%	2.75%
>3.50x but ≤ 4.00x	3.50%	2.50%
≤ 3.50x	3.25%	2.25%

For letters of credit issued under the Revolving Credit Facility, letter of credit fees accrue at the applicable margin (see table above) for Adjusted Eurodollar Rate revolving loans and fronting fees accrue at 0.25% per annum, in each case on the average aggregate daily maximum amount available to be drawn under all letters of credit issued under the First Lien Credit Agreement. In addition a commitment fee of 0.5% per annum accrues on the unused revolver commitments under the Revolving Credit Facility. As of September 30, 2018, the interest rate payable on revolving loans was 7.75%. The letters of credit issued under the agreement totaled $6.3 million and the amount available to borrow under the Revolving Credit Facility was $111.2 million.

The Revolving Credit Facility will terminate on the earliest to occur of (i) July 1, 2021, (ii) the date we voluntarily agree to permanently reduce the Revolving Credit Facility to zero pursuant to section 2.13(b) of the First Lien Credit Agreement, and (iii) the date the Revolving Credit Facility is terminated due to specific events of default pursuant to section 8.01 of the First Lien Credit Agreement.

Second Lien Credit Agreement:

On March 25, 2014, we entered into the Second Lien Credit and Guaranty Agreement (the “Second Lien Credit Agreement”) pursuant to which we issued $180 million of second lien term loans (the “Second Lien Term Loans”). The proceeds from the Second Lien Term Loans were used to redeem our 10 3/8% senior unsecured notes, due 2018, to pay the expenses related to the transaction and for general corporate purposes. On July 1, 2016, in conjunction with the restated First Lien Credit Agreement, a $12.0 million principal payment was made on the Second Lien Term Loans. On August 22, 2017 the Second Lien Credit Agreement was repaid in full with the proceeds of First Lien Term Loans issued under the Fifth Amendment, as described above.

NOTE 6 – STOCK-BASED COMPENSATION

Stock Incentive Plans

We have one long-term equity incentive plan which we refer to as the 2006 Equity Incentive Plan, which we first amended and restated as of April 20, 2015 and again on March 9, 2017 (“the Restated Plan”). The Restated Plan was approved by our stockholders at our annual stockholders meeting on June 8, 2017. We have reserved for issuance under the 2017 Restated Plan 14,000,000 shares of common stock. We can issue options, stock awards, stock appreciation rights, stock units and cash awards under the 2017 Restated Plan.

Options

Certain options granted under the Restated Plan to employees are intended to qualify as incentive stock options under existing tax regulations. Stock options generally vest over three to five years and expire five to ten years from the date of grant.

As of September 30, 2018, we had outstanding options to acquire 548,282 shares of our common stock, of which options to acquire 95,211 shares were exercisable. The following summarizes all of our option transactions for the nine months ended September 30, 2018:

Outstanding Options 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, 2017	420,149	$ 6.82		
Granted	133,133	10.05		
Exercised	(5,000)	2.04		
Balance, September 30, 2018	548,282	7.10	7.52	$4,360,813
Exercisable at September 30, 2018	95,211	4.51	4.24	1,003,378

Aggregate intrinsic value in the table above represents the total pretax intrinsic value (the difference between our closing stock price on September 30, 2018 and the exercise price, multiplied by the number of in-the-money options as applicable) that would have been received by the holder had all holders exercised their options on September 30, 2018. Options exercised amounted to 5,000 shares during the nine months ended September 30, 2018. As of September 30, 2018, total unrecognized stock-based compensation expense related to non-vested employee awards was $1.1 million which is expected to be recognized over a weighted average period of approximately 2.5 years.

Restricted Stock Awards ("RSA's")

The Restated Plan permits the award of restricted stock awards ("RSA's"). As of September 30, 2018, we have issued a total of 5,457,620 RSA's of which 286,754 were unvested at September 30, 2018. The following summarizes all unvested RSA's activities during the nine months ended September 30, 2018:

	RSA's	**Weighted-Average Remaining Contractual Term (Years)**	**Weighted-Average Fair Value**
RSA's unvested at December 31, 2017	447,351		$ 6.17
Changes during the period			
Granted	512,160		$ 10.30
Vested	(671,607)		$ 7.92
Forfeited or Cancelled	(1,150)		$ 6.00
RSA's unvested at September 30, 2018	286,754	0.64	$ 9.81

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

Other stock bonus awards

The Restated Plan also permits the award of stock bonuses not subject to any future service period. These awards are valued and expensed based on the closing price of our common stock on the date of award. During the nine months ended September 30, 2018 awards totaling 45,000 shares were granted.

Plan summary

In sum, of the 14,000,000 shares of common stock reserved for issuance under the Restated Plan, at September 30, 2018, we had issued 13,885,452 total shares between options, RSA's and other stock awards. With options cancelled and RSA's forfeited amounting to 3,140,009 and 60,203 shares, respectively, there remain 3,314,760 shares available under the Restated Plan for future issuance.

NOTE 7 – SUBSEQUENT EVENTS

On October 1, 2018 we completed our acquisition of certain assets of Medical Arts Radiological Group, P.C. consisting of 10 multi-modality imaging centers located on Long Island, New York for purchase consideration of $61.6 million.

On November 1, 2018, we completed our acquisition of certain assets of Southern California Diagnostic Imaging, Inc., consisting of single multi-modality imaging center located in Santa Anna, CA for purchase consideration of $1.4 million.

On November 5, 2018, we completed our acquisition of certain assets of Arcadia Radiology Imaging Services, LLC consisting of 2 multi-modality imaging centers located in Arcadia, CA for purchase consideration of $3.8 million.

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

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our unaudited condensed consolidated financial statements and notes thereto included in Part I, Item 1 of this Quarterly Report on Form 10-Q and with our audited consolidated financial statements and notes thereto for the year ended December 31, 2017 included in our Annual Report on Form 10-K for the