

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

RadNet, Inc.
Form 10-K
March 16, 2009

z

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2008

COMMISSION FILE NUMBER 0-19019

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

DELAWARE
(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
SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT: COMMON
STOCK, \$.0001 PAR VALUE SECURITIES REGISTERED PURSUANT TO SECTION
12(G) OF THE ACT: COMMON STOCK, \$.0001 PAR VALUE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) or the act. Yes No

NOTE--Checking the box above will not relieve any registrant required to file reports pursuant to section 13 or (15(d) of the exchange Act from their obligations under those Sections.

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer Accelerated Filer

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

Non-Accelerated Filer Smaller Reporting Company
(Do not check if a smaller reporting company)

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

The aggregate market value of the registrant's voting and nonvoting common equity held by non-affiliates of the registrant was approximately \$171,470,387 on June 30, 2008 (the last business day of the registrant's most recently completed second quarter) based on the closing price for the common stock on the NASDAQ Global Market on June 30, 2008.

The number of shares of the registrant's common stock outstanding on March 10, 2009, was 35,924,279 shares (excluding treasury shares).

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III of the Form 10-K, to the extent not set forth herein, is incorporated herein by reference from the registrant's definitive proxy statement for the Annual Meeting of Shareholders to be held on May 28, 2009, to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the close of the registrant's fiscal year.

RADNET, INC.

TABLE OF CONTENTS

FORM 10-K ITEM	PAGE
-----	----
PART I.	
Item 1. Business	3
Item 1A. Risk Factors	22
Item 1B. Unresolved Staff Comments	29
Item 2. Properties	29
Item 3. Legal Proceedings	29
Item 4. Submission of Matters to a Vote of Security Holders	30
PART II.	
Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	30
Item 6. Selected Financial Data	33
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	33
Item 7A. Quantitative and Qualitative Disclosures About Market Risk	47
Item 8. Financial Statements and Supplementary Data	48
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	75
Item 9A. Controls and Procedures	75
Item 9B. Other Information	77
PART III.	
Item 10. Directors and Executive Officers of the Registrant	77
Item 11. Executive Compensation	77
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	77
Item 13. Certain Relationships and Related Transactions	77
Item 14. Principal Accountant Fees and Services	77

PART IV.

Item 15. Exhibits, Financial Statement Schedules

77

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. These statements relate to future events or our future financial performance, and involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. These risks and other factors include, among other things, those listed in Item 1A, "Risk Factors," Item 7 -- "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this annual report. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expect," "intend," "plan," "anticipate," "believe," "estimate," "predict," "potential," "continue," "assumption" or the negative of these terms or other comparable terminology. The forward-looking statements contained herein reflect our current views with respect to future events and are based on our currently available financial, economic and competitive data and on current business plans. Actual events or results may differ materially depending on risks and uncertainties that may affect the Company's operations, markets, services, prices and other factors. Important factors that could cause actual results to differ materially from those in the forward-looking statements include, but are not limited to statements concerning RadNet's ability to successfully acquire and integrate new operations, to grow our contract management business, our financial guidance, our statements regarding cost savings, and our statements regarding increased business from new equipment or operations.

We do not undertake any responsibility to release publicly any revisions to these forward-looking statements to take into account events or circumstances that occur after the date of this annual report. Additionally, we do not undertake any responsibility to update you on the occurrence of any unanticipated events which may cause actual results to differ from those expressed or implied by the forward-looking statements contained in this annual report.

2

PART I

ITEM 1. BUSINESS

BUSINESS OVERVIEW

We operate a group of regional networks comprised of 164 diagnostic imaging facilities located in six states with operations in California, Delaware, Maryland, 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, or MRI, computed tomography, or CT, positron emission tomography, or PET, nuclear medicine, mammography, ultrasound, diagnostic radiology, or X-ray, and fluoroscopy. The Company's operations comprise a single segment for financial reporting purposes.

At our facilities, we provide all of the equipment as well as all non-medical operational, management, financial and administrative services necessary to provide diagnostic imaging services. We give our facility managers

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

authority to run our facilities to meet the demands of local market conditions, while our corporate structure provides economies of scale, corporate training programs, standardized policies and procedures and sharing of best practices across our networks. Each of our facility managers is responsible for meeting our standards of patient service, managing relationships with local physicians and payors and maintaining profitability.

We also provide administrative, management and information services to certain radiology practices that provide professional services in connection with diagnostic imaging centers and to hospitals and radiology practices with which we operate joint ventures. The services we provide leverage our existing infrastructure, and we believe the services improve the profitability, efficiency and effectiveness of the radiology practice or joint venture.

Howard G. Berger, M.D. is our President and Chief Executive Officer, a member of our Board of Directors and owns approximately 18% of our outstanding common stock. Dr. Berger also owns, indirectly, 99% of the equity interests in Beverly Radiology Medical Group III, or BRMG. BRMG provides all of the professional medical services at 85 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 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 eleven 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.

We derive substantially all of our revenue, directly or indirectly, from fees charged for the diagnostic imaging services performed at our facilities. For the year ended December 31, 2008, we performed 3,014,039 diagnostic imaging procedures and generated net revenue from continuing operations of \$502.1 million.

On September 3, 2008 we reincorporated from New York into Delaware and are now a Delaware corporation.

COMPANY WEBSITE

We maintain a website at WWW.RADNET.COM. Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports are made available on our website as soon as is reasonably practicable after the material is electronically filed with the Securities and Exchange Commission. References to our website addressed in this report are provided as a convenience and do not constitute, or should be viewed as, an incorporation by reference of the information contained on, or available through, the website. Therefore, such information should not be considered part of this report.

RADIOLOGIX ACQUISITION

On November 15, 2006, we completed the acquisition of Radiologix, Inc. Radiologix, a Delaware corporation, then employing approximately 2,200 people, through its subsidiaries, was a national provider of diagnostic imaging services through the ownership and operation of freestanding, outpatient diagnostic imaging centers. Radiologix owned, operated and maintained equipment in 69

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

locations, with imaging centers in seven states, including primary operations in the Mid-Atlantic; the Bay-Area, California; the Treasure Coast area, Florida; Northeast Kansas; and the Finger Lakes (Rochester) and Hudson Valley areas of New York State. Under the terms of the acquisition agreement, Radiologix shareholders received aggregate consideration of 11,310,950 shares (after giving effect to the one-for-two reverse stock split effected in November 2006) of our common stock and \$42,950,000 in cash. We financed the transaction and refinanced substantially all of our outstanding debt with a \$405 million senior secured credit facility with GE Commercial Healthcare Financial Services.

3

The results of operations of Radiologix and its wholly owned subsidiaries have been included in our consolidated financial statements from the date of acquisition.

In connection with our acquisition of Radiologix, we changed to a calendar-year basis of reporting financial results. As a requirement of this change under Rule 13a-10 of the Securities Exchange Act of 1934, we reported results for November and December 2006 as a separate transition ("stub") period on a Form 10-K/T and filed on April 17, 2007.

INDUSTRY OVERVIEW

Diagnostic imaging involves the use of non-invasive procedures to generate representations of internal anatomy and function that can be recorded on film or digitized for display on a video monitor. Diagnostic imaging procedures facilitate the early diagnosis and treatment of diseases and disorders and may reduce unnecessary invasive procedures, often minimizing the cost and amount of care for patients. Diagnostic imaging procedures include MRI, CT, PET, nuclear medicine, ultrasound, mammography, X-ray and fluoroscopy.

While general X-ray remains the most commonly performed diagnostic imaging procedure, the fastest growing and higher margin procedures are MRI, CT and PET. The rapid growth in PET scans is attributable to the recent introduction of reimbursement by payors of PET procedures. The number of MRI and CT scans continues to grow due to their wider acceptance by physicians and payors, an increasing number of applications for their use and a general increase in demand due to the aging population in the United States.

INDUSTRY TRENDS

We believe the diagnostic imaging services industry will continue to grow as a result of a number of factors, including the following:

ESCALATING DEMAND FOR HEALTHCARE SERVICES FROM AN AGING POPULATION

Persons over the age of 65 comprise one of the fastest growing segments of the population in the United States. According to the United States Census Bureau, this group is expected to increase as much as 14% from 2000 to 2010. Because diagnostic imaging use tends to increase as a person ages, we believe the aging population will generate more demand for diagnostic imaging procedures.

NEW EFFECTIVE APPLICATIONS FOR DIAGNOSTIC IMAGING TECHNOLOGY

New technological developments are expected to extend the clinical uses of diagnostic imaging technology and increase the number of scans performed. Recent technological advancements include:

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

- o MRI spectroscopy, which can differentiate malignant from benign lesions;
- o MRI angiography, which can produce three-dimensional images of body parts and assess the status of blood vessels;
- o Enhancements in teleradiology systems, which permit the digital transmission of radiological images from one location to another for interpretation by radiologists at remote locations; and
- o The development of combined PET/CT scanners, which combine the technology from PET and CT to create a powerful diagnostic imaging system.

Additional improvements in imaging technologies, contrast agents and scan capabilities are leading to new non-invasive methods of diagnosing blockages in the heart's vital coronary arteries, liver metastases, pelvic diseases and vascular abnormalities without exploratory surgery. We believe that the use of the diagnostic capabilities of MRI and other imaging services will continue to increase because they are cost-effective, time-efficient and non-invasive, as compared to alternative procedures, including surgery, and that newer technologies and future technological advancements will continue the increased use of imaging services. In addition, we believe the growing popularity of elective full-body scans will further increase the use of imaging services. At the same time, we believe the industry has increasingly used upgrades to existing equipment to expand applications, extend the useful life of existing equipment, improve image quality, reduce image acquisition time and increase the volume of scans that can be performed. We believe this trend toward equipment upgrades rather than equipment replacements will continue, as we do not foresee new imaging technologies on the horizon that will displace MRI, CT or PET as the principal advanced diagnostic imaging modalities.

WIDER PHYSICIAN AND PAYOR ACCEPTANCE OF THE USE OF IMAGING

During the last 30 years, there has been a major effort undertaken by the medical and scientific communities to develop higher quality, cost-effective diagnostic imaging technologies and to minimize the risks associated with the application of these technologies. The thrust of product development during this period has largely been to reduce the hazards associated with conventional x-ray and nuclear medicine techniques and to develop new, harmless imaging technologies. As a result, the use of advanced diagnostic imaging modalities, such as MRI, CT and PET, which provide superior image quality compared to other diagnostic imaging technologies, has increased rapidly in recent years. These advanced modalities allow physicians to diagnose a wide variety of diseases and injuries quickly and accurately without exploratory surgery or other surgical or

4

invasive procedures, which are usually more expensive, involve greater risk to patients and result in longer rehabilitation time. Because advanced imaging systems are increasingly seen as a tool for reducing long-term healthcare costs, they are gaining wider acceptance among payors.

GREATER CONSUMER AWARENESS OF AND DEMAND FOR PREVENTIVE DIAGNOSTIC SCREENING

Diagnostic imaging is increasingly being used as a screening tool for preventive care such as elective full-body scans. Consumer awareness of and demand for diagnostic imaging as a less invasive and preventive screening method has added to the growth in diagnostic imaging procedures. We believe that

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

further technological advancements will create demand for diagnostic imaging procedures as less invasive procedures for early diagnosis of diseases and disorders.

DIAGNOSTIC IMAGING SETTINGS

Diagnostic imaging services are typically provided in one of the following settings:

FIXED-SITE, FREESTANDING OUTPATIENT DIAGNOSTIC FACILITIES

These facilities range from single-modality to multi-modality facilities and are not generally owned by hospitals or clinics. These facilities depend upon physician referrals for their patients and generally do not maintain dedicated, contractual relationships with hospitals or clinics. In fact, these facilities may compete with hospitals or clinics that have their own imaging systems to provide services to these patients. These facilities bill third-party payors, such as managed care organizations, insurance companies, Medicare or Medicaid. All of our facilities are in this category.

HOSPITALS OR CLINICS

Many hospitals provide both inpatient and outpatient diagnostic imaging services, typically on site. These inpatient and outpatient centers are owned and operated by the hospital or clinic, or jointly by both, and are primarily used by patients of the hospital or clinic. The hospital or clinic bills third-party payors, such as managed care organizations, insurance companies, Medicare or Medicaid.

MOBILE FACILITIES

Using specially designed trailers, imaging service providers transport imaging equipment and provide services to hospitals and clinics on a part-time or full-time basis, thus allowing small to mid-size hospitals and clinics that do not have the patient demand to justify an on-site setting access to advanced diagnostic imaging technology. Diagnostic imaging providers contract directly with the hospital or clinic and are typically reimbursed directly by them.

DIAGNOSTIC IMAGING MODALITIES

The principal diagnostic imaging modalities we use at our facilities are:

MRI

MRI has become widely accepted as the standard diagnostic tool for a wide and fast-growing variety of clinical applications for soft tissue anatomy, such as those found in the brain, spinal cord and interior ligaments of body joints such as the knee. MRI uses a strong magnetic field in conjunction with low energy electromagnetic waves that are processed by a computer to produce high-resolution, three-dimensional, cross-sectional images of body tissue, including the brain, spine, abdomen, heart and extremities. A typical MRI examination takes from 20 to 45 minutes. MRI systems can have either open or closed designs, routinely have magnetic field strength of 0.2 Tesla to 3.0 Tesla and are priced in the range of \$0.6 million to \$2.5 million. We currently have 115 MRI systems in operation.

CT

CT provides higher resolution images than conventional X-rays, but generally not as well defined as those produced by MRI. CT uses a computer to direct the movement of an X-ray tube to produce multiple cross-sectional images

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

of a particular organ or area of the body. CT is used to detect tumors and other conditions affecting bones and internal organs. It is also used to detect the occurrence of strokes, hemorrhages and infections. A typical CT examination takes from 15 to 45 minutes. CT systems are priced in the range of \$0.3 million to \$1.2 million. We currently have 66 CT systems in operation.

5

PET

PET scanning involves the administration of a radiopharmaceutical agent with a positron-emitting isotope and the measurement of the distribution of that isotope to create images for diagnostic purposes. PET scans provide the capability to determine how metabolic activity impacts other aspects of physiology in the disease process by correlating the reading for the PET with other tools such as CT or MRI. PET technology has been found highly effective and appropriate in certain clinical circumstances for the detection and assessment of tumors throughout the body, the evaluation of some cardiac conditions and the assessment of epilepsy seizure sites. The information provided by PET technology often obviates the need to perform further highly invasive or diagnostic surgical procedures. PET systems are priced in the range of \$0.8 million to \$2.5 million. We provide PET-only services through the use of mobile equipment services at two of our sites. In addition, we have combined PET/CT systems that blend the PET and CT imaging modalities into one scanner. These combined systems are priced in the range of \$1.8 million to \$2.2 million. We currently have 26 PET or combination PET/CT systems in operation.

NUCLEAR MEDICINE

Nuclear medicine uses short-lived radioactive isotopes that release small amounts of radiation that can be recorded by a gamma camera and processed by a computer to produce an image of various anatomical structures or to assess the function of various organs such as the heart, kidneys, thyroid and bones. Nuclear medicine is used primarily to study anatomic and metabolic functions. Nuclear medicine systems are priced in the range of \$300,000 to \$400,000. We currently have 24 nuclear medicine systems in operation.

X-RAY

X-rays use roentgen rays to penetrate the body and record images of organs and structures on film. Digital X-ray systems add computer image processing capability to traditional X-ray images, which provides faster transmission of images with a higher resolution and the capability to store images more cost-effectively. X-ray systems are priced in the range of \$50,000 to \$250,000. We currently have 189 x-ray systems in operation.

ULTRASOUND

Ultrasound imaging uses sound waves and their echoes to visualize and locate internal organs. It is particularly useful in viewing soft tissues that do not X-ray well. Ultrasound is used in pregnancy to avoid X-ray exposure as well as in gynecological, urologic, vascular, cardiac and breast applications. Ultrasound systems are priced in the range of \$90,000 to \$250,000. We currently have 194 ultrasound systems in operation.

MAMMOGRAPHY

Mammography is a specialized form of radiology using low dosage X-rays to visualize breast tissue and is the primary screening tool for breast cancer. Mammography procedures and related services assist in the diagnosis of and

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

treatment planning for breast cancer. Analog mammography systems are priced in the range of \$70,000 to \$100,000, and digital mammography systems are priced in the range of \$250,000 to \$400,000. We currently have 113 mammography systems in operation.

FLUOROSCOPY

Fluoroscopy uses ionizing radiation combined with a video viewing system for real time monitoring of organs. Fluoroscopy systems are priced in the range of \$100,000 to \$300,000. We currently have 73 fluoroscopy systems in operation.

COMPETITIVE STRENGTHS

SIGNIFICANT AND KNOWLEDGEABLE PARTICIPANT IN THE NATION'S LARGEST ECONOMY AND ON A NATIONAL SCALE

We believe our group of regional networks of fixed-site, freestanding outpatient diagnostic imaging facilities is the largest of its kind in California, the nation's largest economy and most populous state and the largest outpatient diagnostic imaging facility owner in the U.S. based on our 165 locations. Our two decades of experience in operating diagnostic imaging facilities in almost every major population center in California gives us intimate, first-hand knowledge of these geographic markets, as well as close, long-term relationships with key payors, radiology groups and referring physicians within these markets.

ADVANTAGES OF REGIONAL NETWORKS WITH BROAD GEOGRAPHIC COVERAGE

The organization of our diagnostic imaging facilities into regional networks around major population centers offers unique benefits to our patients, our referring physicians, our payors and us.

We are able to increase the convenience of our services to patients by implementing scheduling systems within geographic regions, where practical. For example, many of our diagnostic imaging facilities within a particular region can access the patient appointment calendars of other facilities within the same

6

regional network to efficiently allocate time available and to meet a patient's appointment, date, time or location preferences.

We have found that many third-party payors representing large groups of patients often prefer to enter into managed care contracts with providers that offer a broad array of diagnostic imaging services at convenient locations throughout a geographic area. We believe that our regional network approach and our utilization management system make us an attractive candidate for selection as a preferred provider for these third-party payors.

Through our advanced information technology systems, we can electronically exchange information between radiologists in real time, enabling us to cover larger geographic markets by using the specialized training of other practitioners in our networks. In addition, many of our facilities digitally transmit to our headquarters, on a daily basis, comprehensive data concerning the diagnostic imaging services performed, which our corporate management closely monitors to evaluate each facility's efficiency. Similarly, BRMG uses our advanced information technology system to closely monitor radiologists to ensure they consistently perform at expected levels.

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

The grouping of our facilities within regional networks enables us to easily move technologists and other personnel, as well as equipment, from under-utilized to over-utilized facilities on an as-needed basis. This results in operating efficiencies and better equipment utilization rates and improved response time for our patients.

COMPREHENSIVE DIAGNOSTIC IMAGING SERVICES

At each of our multi-modality facilities, we offer patients and referring physicians one location to serve their needs for multiple procedures. Furthermore, we have complemented many of our multi-modality sites with single-modality sites to accommodate overflow and to provide a full range of services within a local area consistent with demand. This can help patients avoid multiple visits or lengthy journeys between facilities, thereby decreasing costs and time delays.

STRONG RELATIONSHIPS WITH EXPERIENCED AND HIGHLY REGARDED RADIOLOGISTS

Our contracted radiologists generally have outstanding credentials and reputations, strong relationships with referring physicians, a broad mix of sub-specialties and a willingness to embrace our approach for the delivery of diagnostic imaging services. The collective experience and expertise of these radiologists translates into more accurate and efficient service to patients. Moreover, as a result of our close relationship with Dr. Berger and BRMG in California and our long-term arrangements with radiologists outside of California, we believe that we are able to better ensure that medical service is provided at our 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 or short-term practice groups. We believe that physicians are drawn to BRMG and the other radiologist groups with whom we contract by the opportunity to work with the state-of-the-art equipment we make available to them, as well as the opportunity to receive specialized training through our fellowship programs, and engage in clinical research programs, which generally are available only in university settings and major hospitals.

DIVERSIFIED PAYOR MIX

Our revenue is derived from a diverse mix of payors, including private payors, managed care capitated payors and government payors. We believe our payor diversity mitigates our exposure to possible unfavorable reimbursement trends within any one-payor class. In addition, our experience with capitation arrangements over the last several years has provided us with the expertise to manage utilization and pricing effectively, resulting in a predictable stream of profitable revenue. With the exception of Blue Cross/Blue Shield and government payors, no single payor accounted for more than 5% of our net revenue for the twelve months ended December 31, 2008.

EXPERIENCED AND COMMITTED MANAGEMENT TEAM

Our senior management group, together have over 100 years of healthcare management experience. Our executive management team has created our differentiated approach based on their comprehensive understanding of the diagnostic imaging industry and the dynamics of our regional markets. Our management beneficially owns approximately 24% of our common stock.

BUSINESS STRATEGY

MAXIMIZING PERFORMANCE AT OUR EXISTING FACILITIES

We intend to enhance our operations and increase scan volume and revenue at our existing facilities by:

- o Establishing new referring physician and payor relationships;
- o Increasing patient referrals through targeted marketing efforts to referring physicians;
- o Adding modalities and increasing imaging capacity through equipment upgrades to existing machinery, adding new machinery and relocating machinery to meet the needs of our regional markets;
- o Leveraging our multi-modality offerings to increase the number of high-end procedures performed; and
- o Building upon our capitation arrangements to obtain fee-for-service business.

FOCUSING ON PROFITABLE CONTRACTING

We regularly evaluate our contracts with third-party payors and radiology groups, as well as our equipment and real property leases, to determine how we may improve the terms to increase our revenues and reduce our expenses. Because many of our contracts have one-year terms, we can regularly renegotiate these contracts, if necessary. We believe our position as a leading provider of diagnostic imaging services in the areas of our concentration, our experience and knowledge of the various geographic markets in those areas, and the benefits offered by our regional networks enable us to obtain more favorable contract terms than would be available to smaller or less experienced organizations.

EXPANDING MRI, CT AND PET APPLICATIONS

We intend to continue to use expanding MRI, CT and PET applications as they become commercially available. Most of these applications can be performed by our existing MRI, CT and PET systems with upgrades to software and hardware. We intend to introduce applications that will decrease scan and image-reading time to increase our productivity.

OPTIMIZING OPERATING EFFICIENCIES

We intend to maximize our equipment utilization by adding, upgrading and re-deploying equipment where we experience excess demand. We will continue to trim excess operating and general and administrative costs where it is feasible to do so, including consolidating, divesting or closing under-performing facilities to reduce operating costs and improve operating income. We also may continue to use, where appropriate, highly trained radiology physician assistants to perform, under appropriate supervision of radiologists, basic services traditionally performed by radiologists. We will continue to upgrade our advanced information technology system to create cost reductions for our facilities in areas such as image storage, support personnel and financial management.

EXPANDING OUR NETWORKS

We intend to continue to expand our networks of facilities through new developments and acquisitions, using a disciplined approach for evaluating and entering new areas, including consideration of whether we have adequate financial resources to expand. We perform extensive due diligence before

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

developing a new facility or acquiring an existing facility, including surveying local referral sources and radiologists, as well as examining the demographics, reimbursement environment, competitive landscape and intrinsic demand of the geographic market. We generally will only enter new markets where:

- o There is sufficient patient demand for outpatient diagnostic imaging services;
- o We believe we can gain significant market share;
- o We can build key referral relationships or we have already established such relationships; and
- o Payors are receptive to our entry into the market.

OUR SERVICES

We offer the following services: MRI, CT, PET, nuclear medicine, X-ray, ultrasound, mammography and fluoroscopy. Our facilities provide standardized services, regardless of location, to ensure patients, physicians and payors consistency in service and quality. We monitor our level of service, including patient satisfaction, timeliness of services to patients and reports to physicians.

The key features of our services include:

- o Patient-friendly, non-clinical environments;
- o A 24-hour turnaround on routine examinations;
- o Interpretations within one to two hours, if needed;
- o Flexible patient scheduling, including same-day appointments;
- o Extended operating hours, including weekends;
- o Reports delivered via courier, fax or email;
- o Availability of second opinions and consultations;
- o Availability of sub-specialty interpretations at no additional charge;
- o Standardized fee schedules by region; and
- o Fees that are more competitive than hospital fees.

RADIOLOGY PROFESSIONALS

In the states in which we provide services, a lay person or any entity other than a professional corporation or similar professional organization is not allowed to practice medicine, including by employing professional persons or by having any ownership interest or profit participation in or control over any medical professional practice. This doctrine is commonly referred to as the prohibition on the "corporate practice" of medicine. In order to comply with this prohibition, we contract with radiologists to provide professional medical services in our facilities, including the supervision and interpretation of

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

diagnostic imaging procedures. The radiology practice maintains full control over the physicians it employs. Pursuant to each management contract, we make available the imaging facility and all of the furniture and medical equipment at the facility for use by the radiology practice, and the practice is responsible for staffing the facility with qualified professional medical personnel. In addition, we provide management services and administration of the non-medical functions relating to the professional medical practice at the facility, including among other functions, provision of 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. As compensation for the services furnished under contracts with radiologists, we generally receive an agreed percentage of the medical practice billings for, or collections from, services provided at the facility, typically varying between 75% to 84% of net revenue or collections.

At all but eight of our California facilities we contract, directly or through BRMG, with other radiology groups to provide professional medical services. At our imaging facilities we charge a fee for our services as manager of the entity which owns the center. Our fee is typically 80% to 90% of the collected revenue of each company after deduction of the professional fees. In addition, we generally own a percentage of the equity interests of the entity, which owns the facility from which we are also entitled to a percentage of income after a deduction of all expenses, including amounts paid for medical services and medical supervision commensurate with our ownership percentage.

BRMG

At 85 of our facilities, BRMG is our contracted radiology group. At December 31, 2008, BRMG employed 72 full-time and eight part-time radiologists. Under our management agreement with BRMG we are paid, as compensation for the use of our facilities and equipment and for our services, a percentage of the amounts collected for the professional services BRMG physicians render which for the year ended December 31, 2008, was 79%. The percentage may be adjusted, if necessary, to ensure that the parties receive the fair value for the services they render. The following are the other principal terms of our management agreement with BRMG:

- o The agreement expires on January 1, 2014. However, the agreement automatically renews for consecutive 10-year periods, unless either party delivers a notice of non-renewal to the other party no later than six months prior to the scheduled expiration date. In addition, either party may terminate the agreement if the other party defaults under its obligations, after notice and an opportunity to cure, and we may terminate the agreement if Dr. Berger no longer owns at least 60% of the equity of BRMG. Dr. Berger owns 99% of the equity of BRMG.
- o At its expense, BRMG employs or contracts with an adequate number of physicians necessary to provide all professional medical services at all of our California facilities, except for eight facilities for which we contract with separate medical groups.
- o At our expense, we provide all furniture, furnishings and medical equipment located at the facilities and we manage and administer all non-medical functions at, and provide all nurses and other non-physician personnel required for the operation of, the facilities.
- o If BRMG wants to open a new facility, we have the right of

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

first refusal to provide the space and services for the facility under the same terms and conditions set forth in the management agreement.

- o If we want to open a new facility, BRMG must use its best efforts to provide medical personnel under the same terms and conditions set forth in the management agreement. If BRMG cannot provide such personnel, we have the right to contract with other physicians to provide services at the facility.
- o BRMG must maintain medical malpractice insurance for each of its physicians with coverage limits not less than \$1 million per incident and \$3 million in the aggregate per year. BRMG also has agreed to indemnify us for any losses we suffer that arise out of the acts or omissions of BRMG and its employees, contractors and agents.

At the non-California locations and at eight California locations:

Typically, one of our subsidiaries contracts with radiology practices to provide professional services, including supervision and interpretation of diagnostic imaging procedures performed in the imaging centers. The contracted radiology practices generally have outstanding physician and practice credentials and reputations; strong competitive market positions; a broad

9

sub-specialty mix of physicians; a history of growth and potential for continued growth; and a willingness to embrace our strategy for the delivery of diagnostic imaging services.

We have two models by which we contract with radiology practices: a comprehensive services model and a technical services model. Under our comprehensive services model, we enter into a long-term agreement with a radiology practice group (typically 40 years). Under this arrangement, 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 imaging centers. Under our technical services model, which relates primarily to seven of our subsidiary operations, we enter into a shorter-term agreement with a radiology practice group (typically 10 to 15 years) and pay a fee to the radiology group (typically between 10% to 15% of the cash collections from reimbursement for imaging procedures). In both the comprehensive services and technical services models, we own the diagnostic imaging assets and, therefore, receive 100% of the technical reimbursements associated with imaging procedures.

The agreements with the radiology practices under our comprehensive services model contain provisions whereby both parties have agreed to certain restrictions on accepting or pursuing radiology opportunities within a five to fifteen-mile radius of any of our owned, operated or managed diagnostic imaging centers at which the radiology practice provides professional radiology services or any hospital at which the radiology practice provides on-site professional radiology services. Each of these agreements also restricts the applicable radiology practice from competing with us and our other contracted radiology practices within a specified geographic area during the term of the agreement. In addition, the agreements require the radiology practices to enter into and enforce agreements with their physician shareholders at each radiology practice (subject to certain exceptions) that include covenants not to compete with us for a period of two years after termination of employment or ownership, as applicable.

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

Under our comprehensive services model, we have the right to terminate each agreement if the radiology practice or a physician of the contracted radiology practice engages in conduct, or is formally accused of conduct, for which the physician employee's license to practice medicine reasonably would be expected to be subject to revocation or suspension or is otherwise disciplined by any licensing, regulatory or professional entity or institution, the result of any of which (in the absence of termination of this physician or other action to monitor or cure this act or conduct) adversely affects or would reasonably be expected to adversely affect the radiology practice.

Under our comprehensive services model, upon termination of an agreement with a radiology practice, depending upon the termination event, we may have the right to require the radiology practice to purchase and assume, or the radiology practice may have the right to require us to sell, assign and transfer to it, the assets and related liabilities and obligations associated with the professional and technical radiology services provided by the radiology practice immediately prior to the termination. The purchase price for the assets, liabilities and obligations would be the lesser of their fair market value or the return of the consideration received in the acquisition. However, the purchase price may not be less than the net book value of the assets being purchased.

The agreements with most of the radiology practices under our technical services model contain non-compete provisions that are generally less restrictive than those provisions under our comprehensive services model. The geographic scope of and types of services covered by the non-compete provisions vary from practice to practice. Under our technical services model, we generally have the right to terminate the agreement if a contracted radiology practice loses the licenses required to perform the service obligations under the agreement, violates non-compete provisions relating to the modalities offered or if income thresholds are not met.

PAYORS

The fees charged for diagnostic imaging services performed at our facilities are paid by a diverse mix of payors, as illustrated for the following periods presented in the table below:

	% OF NET REVENUE	
	YEAR ENDED DECEMBER 31, 2007	YEAR ENDED DECEMBER 31, 2008
Insurance (1)	57%	56%
Managed Care Capitated Payors	15%	15%
Medicare/Medicaid	22%	23%
Other (2)	2%	2%
Workers Compensation/Personal Injury	4%	4%

 (1) Includes Blue Cross/Blue Shield, which represented 19% of our net revenue for the year ended December 31, 2007 and 19% of our net revenue for the year ended December 31, 2008.

(2) Includes co-payments, direct patient payments and payments through contracts

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

with physician groups and other non-insurance company payors.

10

We have described below the types of reimbursement arrangements we have with third-party payors.

INSURANCE

Generally, insurance companies reimburse us, directly or indirectly, including through BRMG in California or through the contracted radiology groups elsewhere, on the basis of agreed upon rates. These rates are on average approximately the same as the rates set forth in the Medicare Fee Schedule for the particular service. The patients are generally not responsible for any amount above the insurance allowable amount.

MANAGED CARE CAPITATION AGREEMENTS

Under these agreements, which are generally between BRMG in California and outside of California between the contracted radiology group and the payor, typically an independent physicians group or other medical group, the payor pays a pre-determined amount per-member per-month in exchange for the radiology group providing all necessary covered services to the managed care members included in the agreement. These contracts pass much of the financial risk of providing outpatient diagnostic imaging services, including the risk of over-use, from the payor to the radiology group and, as a result of our management agreement with the radiology group, to us.

We believe that through our comprehensive utilization management, or UM, program we have become highly skilled at assessing and moderating the risks associated with the capitation agreements, so that these agreements are profitable for us. Our UM program is managed by our UM department, which consists of administrative and nursing staff as well as BRMG medical staff who are actively involved with the referring physicians and payor management in both prospective and retrospective review programs. Our UM program includes the following features, all of which are designed to manage our costs while ensuring that patients receive appropriate care:

PHYSICIAN EDUCATION

At the inception of a new capitation agreement, we provide the new referring physicians with binders of educational material comprised of proprietary information that we have prepared and third-party information we have compiled, which are designed to address diagnostic strategies for common diseases. We distribute additional material according to the referral practices of the group as determined in the retrospective analysis described below.

PROSPECTIVE REVIEW

Referring physicians are required to submit authorization requests for non-emergency high-intensity services: MRI, CT, special procedures and nuclear medicine studies. The UM medical staff, according to accepted practice guidelines, considers the necessity and appropriateness of each request. Notification is then sent to the imaging facility, referring physician and medical group. Appeals for cases not approved are directed to us. The capitated payor has the final authority to uphold or deny our recommendation.

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

RETROSPECTIVE REVIEW

We collect and sort encounter activity by payor, place of service, referring physician, exam type and date of service. The data is then presented in quantitative and analytical form to facilitate understanding of utilization activity and to provide a comparison between fee-for-service and Medicare equivalents. Our Medical Director prepares a quarterly report for each payor and referring physician, which we send to them. When we find that a referring physician is over utilizing services, we work with the physician to modify referral patterns.

MEDICARE/MEDICAID

Medicare is the national health insurance program for people age 65 or older and people under age 65 with certain disabilities. Medicaid is the state health insurance program for qualifying low-income persons. Medicare and Medicaid reimburse us, directly or indirectly, including through the contracted radiology group, in accordance with the Medicare Fee Schedule, which is a schedule of rates applicable to particular services and annually adjusted upwards or downwards, typically, within a 4-8% range. Medicare patients are not responsible for any amount above the Medicare allowable amount. Medicaid patients are not responsible for any unreimbursed portion.

11

CONTRACTS WITH PHYSICIAN GROUPS AND OTHER NON-INSURANCE COMPANY PAYORS

These payors reimburse us, directly or indirectly, on the basis of agreed upon rates. These rates are typically at or below the rates set forth in the current Medicare Fee Schedule for the particular service. However, we often agree to a specified rate for MRI and CT procedures that is not tied to the Medicare Fee Schedule. The patients are generally not responsible for the unreimbursed portion.

FACILITIES

Through our wholly owned subsidiaries, we operate 93 fixed-site, freestanding outpatient diagnostic imaging facilities in California, 35 in the Baltimore-Washington, D.C. area and 18 in the Rochester and Hudson Valley areas of New York, 15 in Delaware, as well as two individual facilities in Florida and one in Kansas. We lease the premises at which these facilities are located.

Our facilities are primarily located in regional networks that we refer to as regions. The majority of our facilities are multi-modality sites, offering various combinations of MRI, CT, PET, nuclear medicine, ultrasound, X-ray and fluoroscopy services. A portion of our facilities are single-modality sites, offering either X-ray or MRI services. Consistent with our regional network strategy, we locate our single-modality facilities near multi-modality facilities, to help accommodate overflow in targeted demographic areas.

The following table sets forth the number of our facilities for each year during the five-year period ended December 31, 2008:

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

	YEAR ENDED DECEMBER 31		
	2004	2005	2006
Total facilities owned or managed (at beginning of year)	56	56	57
Facilities added by:			
Acquisition*	--	--	78
Internal development	3	1	4
Facilities closed or sold	(3)	--	(7)
Total facilities owned (at end of year)	56	57	132*

* Includes 69 Radiologix facilities acquired on November 15, 2006.

DIAGNOSTIC IMAGING EQUIPMENT

The following table indicates, as of December 31, 2008, the quantity of principal diagnostic equipment available at our facilities, by region:

	MRI	Open MRI	CT	PET/CT	Mammography	Ultra Sound
Kansas	0	0	1	0	0	1
California	46	21	30	17	70	107
Florida	2	1	3	1	3	4
New York	14	1	10	3	13	30
Maryland	15	7	16	5	23	41
Delaware	7	1	6	0	4	11
Total	84	31	66	26	113	194

The average age of our MRI and CT units is less than six years, and the average age of our PET units is less than four years. The useful life of our MRI, CT and PET units is typically ten years.

FACILITY ACQUISITIONS AND DIVESTITURES

ACQUISITIONS

On October 31, 2008, we acquired the assets and business of Middletown Imaging in Middletown, Delaware for \$210,000 in cash and the assumption of capital lease debt of \$1.2 million. We made a preliminary purchase price allocation of the acquired assets and liabilities, and approximately \$530,000 of goodwill was recorded with respect to this transaction.

On August 15, 2008, we acquired the women's imaging practice of Parvis Gamagami, M.D., Inc. in Van Nuys, CA for \$600,000. Upon acquisition, we relocated the practice to a nearby center we recently acquired from InSight Health in Encino, CA. We rebranded the InSight center as the Encino Breast Care Center, and focused it on Digital Mammography, Ultrasound, MRI and other

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

modalities pertaining to women's health. We have allocated the full purchase price of \$600,000 to goodwill.

On July 23, 2008, we acquired 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. We made a preliminary purchase price allocation of the acquired assets and liabilities, and approximately \$2.6 million of goodwill was recorded with respect to this transaction.

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 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 made a preliminary purchase price allocation of the acquired assets and liabilities, and approximately \$313,000 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 Mammography. We made a preliminary purchase price allocation of the acquired assets and liabilities, and approximately \$5.6 million of goodwill was recorded with respect to this transaction.

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 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 well 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 made a preliminary purchase price allocation of the acquired assets and liabilities, and approximately \$3.6 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.

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

We made a preliminary purchase price allocation of the acquired assets and liabilities, and approximately \$5.6 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 \$3.0 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.

13

In September 2007, we acquired the assets and business of Walnut Creek 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 \$8.9 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 reducing our ownership to 49%. As a result of this transaction, we no longer consolidate this joint venture. Accordingly, our consolidated balance sheet at December 31, 2007 includes this 49% interest as a component of our total investment in

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

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.

INFORMATION TECHNOLOGY

Our corporate headquarters and many of our facilities are interconnected through a state-of-the-art information technology system. This system, which is compliant with the Health Insurance Portability and Accountability Act of 1996, is comprised of a number of integrated applications, provides a single operating platform for billing and collections, electronic medical records, practice management and image management.

This technology has created cost reductions for our facilities in areas such as image storage, support personnel and financial management and has further allowed us to optimize the productivity of all aspects of our business by enabling us to:

- o Capture all necessary patient demographic, history and billing information at point-of-service;
- o Automatically generate bills and electronically file claims with third-party payors;
- o Record and store diagnostic report images in digital format;
- o Digitally transmit on a real time basis diagnostic images from one location to another, thus enabling networked radiologists to cover larger geographic markets by using the specialized training of other networked radiologists;
- o Perform claims, rejection and collection analysis; and
- o Perform sophisticated financial analysis, such as analyzing cost and profitability, volume, charges, current activity and patient case mix, with respect to each of our managed care contracts.

Currently diagnostic reports and images are accessible via the Internet to our California referring providers. We have worked with some of the larger medical groups in California with whom we have contracts to provide access to this content via their web portals. We are in the process of making such services available outside of California.

PERSONNEL

At December 31, 2008, we had a total of 2,940 full-time, 789 part-time and 574 per diem employees. These numbers include 72 full-time and eight part-time physicians and 1,073 full-time, 569 part-time and 261 per-diem technologists.

We employ site managers who are responsible for overseeing day-to-day and routine operations at each of our facilities, including staffing, modality

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

and schedule coordination, referring physician and patient relations and purchasing of materials. In turn, these site managers report to regional managers and directors, who are responsible for oversight of the operations of all facilities within their region, including sales, marketing and contracting.

14

The regional managers and directors, along with our directors of contracting, marketing, facilities, management/purchasing and human resources report to our eastern and western chief operating officers. Our chief financial officer, director of information services and our medical director report to our chief executive officer.

None of our employees is subject to a collective bargaining agreement nor have we experienced any work stoppages. We believe our relationship with our employees is good.

EXECUTIVE OFFICERS

Our executive officers are:

NAME ----	AGE ---	OFFICER SINCE -----	POSITION -----
Howard G. Berger, M.D.	64	1992	President and Chief Executive
John V. Crues, III, M.D.	58	2000	Medical Director
Stephen M. Forthuber	46	2006	Executive Vice President and Officer-Eastern Operations
Norman R. Hames	51	1996	Executive Vice President, Secy Officer-Western Operations
Jeffrey L. Linden	65	2001	Executive Vice President and G
Mark D. Stolper	37	2004	Executive Vice President and C

Howard G. Berger, M.D. has served as President and Chief Executive Officer of our company and its predecessor entities since 1987. Dr. Berger is also the president of the entities that own BRMG. Dr. Berger has over 25 years of experience in the development and management of healthcare businesses. He began his career in medicine at the University of Illinois Medical School, is Board Certified in Nuclear Medicine and trained in an Internal Medicine residency, as well as in a masters program in medical physics in the University of California system.

John V. Crues, III, M.D. is a world-renowned radiologist. Dr. Crues plays a significant role as a musculoskeletal specialist for many of our patients as well as a resource for physicians providing services at our facilities. Dr. Crues received his M.D. at Harvard University, completed his internship at the University of Southern California in Internal Medicine, and completed a residency at Cedars-Sinai in Internal Medicine and Radiology. Dr. Crues has authored numerous publications while continuing to actively participate in radiological societies such as the Radiological Society of North America, American College of Radiology, California Radiological Society, International Society for Magnetic Resonance Medicine and the International Skeletal Society.

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

Stephen M. Forthuber became our Executive Vice President and Chief Operating Officer for Eastern Operations subsequent to the Radiologix acquisition. He joined Radiologix in January 2000 as Regional Director of Operations, Northeast. From July 2002 until January 2005 he served as Regional Vice President of Operations, Northeast and from February until December 2005 he was Senior Vice President and Chief Development Officer for Radiologix. Prior to working at Radiologix, Mr. Forthuber was employed from 1982 until 1999 by Per-Se Technologies, Inc. and its predecessor companies, where he had significant physician practice management and radiology operations responsibilities.

Norman R. Hames has served as our Chief Operating Officer since 1996 and currently as our Executive Vice President and Chief Operating Officer - Western Operations. Applying his 20 years of experience in the industry, Mr. Hames oversees all aspects of facility operations. His management team, comprised of regional directors, managers and sales managers, are responsible for responding to all of the day-to-day concerns of our facilities, patients, payors and referring physicians. Prior to joining our company, Mr. Hames was President and Chief Executive Officer of his own company, Diagnostic Imaging Services, Inc. (which we acquired), which owned and operated 14 multi-modality imaging facilities throughout Southern California. Mr. Hames gained his initial experience in operating imaging centers for American Medical International, or AMI, and was responsible for the development of AMI's single and multi-modality imaging centers.

Jeffrey L. Linden joined us in 2001 and currently serves as our Executive Vice President and General Counsel. Prior to joining us, Mr. Linden had been engaged in the private practice of law. He has lectured before numerous organizations on various topics, including the California State Bar, American Society of Therapeutic Radiation Oncologists, California Radiological Association, and National Radiology Business Managers Association.

Mark D. Stolper has served as our Chief Financial Officer since 2004 and prior to that was an independent member of our Board of Directors. Prior to joining us, he had diverse experiences in investment banking, private equity, venture capital investing and operations prior to joining us. Mr. Stolper began

15

his career as a member of the corporate finance group at Dillon, Read and Co., Inc., executing mergers and acquisitions, public and private financings and private equity investments with Saratoga Partners LLP, an affiliated principal investment group of Dillon Read. After Dillon Read, Mr. Stolper joined Archon Capital Partners, backed by the Milken Family and NewsCorp, which made private equity investments in media and entertainment companies. Mr. Stolper received his operating experience with Eastman Kodak, where he was responsible for business development for Kodak's Entertainment Imaging subsidiary (\$1.5 billion in sales). Mr. Stolper was also co-founder of Broadstream Capital Partners, a Los Angeles-based investment banking firm focused on advising middle market companies engaged in financing and merger and acquisition transactions.

The officers are elected annually and serve at the discretion of the Board of Directors. There are no family relationships among any of the officers and directors.

MARKETING

Our California marketing team consists of one director of marketing, six territory sales managers and 20 customer service representatives. Our eastern marketing team consists of 27 customer sales representatives and six sales managers who each report to a district manager. Our marketing team employs

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

a multi-pronged approach to marketing.

PHYSICIAN MARKETING

Each customer service representative is responsible for marketing activity on behalf of one or more facilities. The representatives act as a liaison between the facility and referring physicians, holding meetings periodically and on an as-needed basis with them and their staff to present educational programs on new applications and uses of our systems and to address particular patient service issues that have arisen. In our experience, consistent hands-on contact with a referring physician and his or her staff generates goodwill and increases referrals. The representatives also continually seek to establish referral relationships with new physicians and physician groups. In addition to a base salary and a car allowance, each representative receives a quarterly bonus if the facility or facilities on behalf of which he or she markets meets specified net revenue goals for the quarter.

PAYOR MARKETING

Our marketing team regularly meets with managed care organizations and insurance companies to solicit contracts and meet with existing contracting payors to solidify those relationships. The comprehensiveness of our services, the geographic location of our facilities and the reputation of the physicians with whom we contract all serve as tools for obtaining new or repeat business from payors.

SPORTS MARKETING PROGRAM

We have a sports marketing program designed to increase our public profile. We provide X-ray equipment and a technician for all of the basketball games of the Lakers, Clippers and Sparks held at the Staples Center in Los Angeles, Ducks hockey games held at the Arrowhead Pond in Anaheim, and University of Southern California football games held in the Los Angeles Coliseum. In exchange for this service, we receive game tickets and an advertisement in each team program throughout the season. In addition, we have a close relationship with the physicians for some of these teams.

SUPPLIERS

Historically, we have acquired a majority of our advanced diagnostic imaging equipment from GE Medical Systems, Inc., and we purchase medical supplies from various national vendors. We believe that we have excellent working relationships with all of our major vendors. However, there are several comparable vendors for our supplies that would be available to us if one of our current vendors becomes unavailable.

We primarily acquire our equipment with cash or through various financing arrangements with equipment vendors and third party equipment finance companies involving the use of capital leases with purchase options at minimal prices at the end of the lease term. At December 31, 2008, capital lease obligations, excluding interest, totaled approximately \$39.3 million through 2013, including current installments totaling approximately \$15.1 million. If we open or acquire additional imaging facilities, we may have to incur material capital lease obligations.

Timely, effective maintenance is essential for achieving high utilization rates of our imaging equipment. We have an arrangement with GE Medical Systems under which it has agreed to be responsible for the maintenance and repair of a majority of our equipment for a fee that is based upon a percentage of our revenue, subject to a minimum payment. Net revenue is reduced by the provision for bad debts, mobile PET revenue and other professional

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

reading service revenue to obtain adjusted net revenue.

16

COMPETITION

The market for diagnostic imaging services is highly competitive. We compete principally on the basis of our reputation, our ability to provide multiple modalities at many of our facilities, the location of our facilities and the quality of our diagnostic imaging services. We compete locally with groups of radiologists, established hospitals, clinics and other independent organizations that own and operate imaging equipment. Our major national competitors include Alliance Imaging, Inc., Medical Resources, Inc. and InSight Health Services. Some of our competitors may now or in the future have access to greater financial resources than we do and may have access to newer, more advanced equipment. In addition, some physician practices have established their own diagnostic imaging facilities within their group practices to compete with us. We experience additional competition as a result of those activities.

Each of the non-BRMG contracted radiology practices under the comprehensive services model has entered into agreements with its physician shareholders and full-time employed radiologists that generally prohibit those shareholders and radiologists from competing for a period of two years within defined geographic regions after they cease to be owners or employees, as applicable. In most states, a covenant not to compete will be enforced only:

- o to the extent it is necessary to protect a legitimate business interest of the party seeking enforcement;
- o if it does not unreasonably restrain the party against whom enforcement is sought; and
- o if it is not contrary to public interest.

Enforceability of a non-compete covenant is determined by a court based on all of the facts and circumstances of the specific case at the time enforcement is sought. For this reason, it is not possible to predict whether or to what extent a court will enforce the contracted radiology practices' covenants. The inability of the contracted radiology practices or us to enforce radiologist's non-compete covenants could result in increased competition from individuals who are knowledgeable about our business strategies and operations.

INSURANCE

We maintain insurance policies with coverage we believe is appropriate in light of the risks attendant to our business and consistent with industry practice. However, adequate liability insurance may not be available to us in the future at acceptable costs or at all. We maintain general liability insurance and professional liability insurance in commercially reasonable amounts. Additionally, we maintain workers' compensation insurance on all of our employees. Coverage is placed on a statutory basis and responds to individual state's requirements.

Pursuant to our agreements with physician groups with whom we contract, including BRMG, each group must maintain medical malpractice insurance for the group, having coverage limits of not less than \$1.0 million per incident and \$3.0 million in the aggregate per year.

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

California's medical malpractice cap further reduces our exposure. California places a \$250,000 limit on non-economic damages for medical malpractice cases. Non-economic damages are defined as compensation for pain, suffering, inconvenience, physical impairment, disfigurement and other non-pecuniary injury. The cap applies whether the case is for injury or death, and it allows only one \$250,000 recovery in a wrongful death case. No cap applies to economic damages. Other states in which we now operate do not have similar limitations and in those states we believe our insurance coverage to be sufficient.

We maintain a \$5.0 million key-man life insurance policy on the life of Dr. Berger. We are the beneficiary under the policy.

REGULATION

GENERAL

The healthcare industry is highly regulated, and we can give no assurance that the regulatory environment in which we operate will not change significantly in the future. Our ability to operate profitably will depend in part upon us, and the contracted radiology practices and their affiliated physicians obtaining and maintaining all necessary licenses and other approvals, and operating in compliance with applicable healthcare regulations. We believe that healthcare regulations will continue to change. Therefore, we monitor developments in healthcare law and modify our operations from time to time as the business and regulatory environment changes. Although we intend to continue to operate in compliance, we cannot ensure that we will be able to adequately modify our operations so as to address changes in the regulatory environment.

17

LICENSING AND CERTIFICATION LAWS

Ownership, construction, operation, expansion and acquisition of diagnostic imaging facilities are subject to various federal and state laws, regulations and approvals concerning licensing of facilities and personnel. In addition, free-standing diagnostic imaging facilities that provide services not performed as part of a physician office must meet Medicare requirements to be certified as an independent diagnostic testing facility to bill the Medicare program. We may not be able to receive the required regulatory approvals for any future acquisitions, expansions or replacements, and the failure to obtain these approvals could limit the market for our services. We have experienced a slowdown in the credentialing of our physicians over the last several years which has lengthened our billing and collection cycle. Physician credentialing is a requirement of our payors prior to their commencement of payment.

CORPORATE PRACTICE OF MEDICINE

In the states in which we operate, a lay person or any entity other than a professional corporation or other similar professional organization is not allowed to practice medicine, including by employing professional persons or by having any ownership interest or profit participation in or control over any medical professional practice. The laws of such states also prohibit a lay person or a non-professional entity from exercising control over the medical judgments or decisions of physicians and from engaging in certain financial arrangements, such as splitting professional fees with physicians. We structure our relationships with the radiology practices, including the purchase of diagnostic imaging facilities, in a manner that we believe keeps us from engaging in the practice of medicine or exercising control over the medical judgments or decisions of the radiology practices or their physicians or

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

violating the prohibitions against fee-splitting. However, because challenges to these types of arrangements are not required to be reported, we cannot substantiate our belief. There can be no assurance that our present arrangements with BRMG or the other physicians providing medical services and medical supervision at our imaging facilities will not be challenged, and, if challenged, that they will not be found to violate the corporate practice prohibition, thus subjecting us to a potential combination of damages, injunction and civil and criminal penalties or require us to restructure our arrangements in a way that would affect the control or quality of our services or change the amounts we receive under our management agreements, or both.

MEDICARE AND MEDICAID FRAUD AND ABUSE

Our revenue is derived through our ownership, operation and management of diagnostic imaging centers and from service fees paid to us by contracted radiology practices. During the twelve months ended December 31, 2008, approximately 23% of our revenue generated at our diagnostic imaging centers was derived from government sponsored healthcare programs (principally Medicare and Medicaid).

Federal law prohibits the knowing and willful offer, payment, solicitation or receipt of any form of remuneration in return for, or to induce, (i) the referral of a person, (ii) the furnishing or arranging for the furnishing of items or services reimbursable under the Medicare, Medicaid or other governmental programs or (iii) the purchase, lease or order or arranging or recommending purchasing, leasing or ordering of any item or service reimbursable under the Medicare, Medicaid or other governmental programs. Enforcement of this anti-kickback law is a high priority for the federal government, which has substantially increased enforcement resources and is scheduled to continue increasing such resources. The applicability of the anti-kickback law to many business transactions in the healthcare industry has not yet been subject to judicial or regulatory interpretation. Noncompliance with the federal anti-kickback legislation can result in exclusion from the Medicare, Medicaid or other governmental programs and civil and criminal penalties.

We receive fees under our service agreements for management and administrative services, which include contract negotiation and marketing services. We do not believe we are in a position to make or influence referrals of patients or services reimbursed under Medicare or other governmental programs to radiology practices or their affiliated physicians or to receive referrals. However, we may be considered to be in a position to arrange for items or services reimbursable under a federal healthcare program. Because the provisions of the federal anti-kickback statute are broadly worded and have been broadly interpreted by federal courts, it is possible that the government could take the position that our arrangements with the contracted radiology practices implicate the federal anti-kickback statute. Violation of the law can result in monetary fines, civil and criminal penalties, and exclusion from participation in federal or state healthcare programs, any of which could have an adverse effect on our business and results of operations. While our service agreements with the contracted radiology practices will not meet a safe harbor to the federal anti-kickback statute, failure to meet a safe harbor does not mean that agreements violate the anti-kickback statute. We have sought to structure our agreements to be consistent with fair market value in arms' length transactions for the nature and amount of management and administrative services rendered. For these reasons, we do not believe that service fees payable to us should be viewed as remuneration for referring or influencing referrals of patients or services covered by such programs as prohibited by statute.

Significant prohibitions against physician referrals have been enacted by Congress. These prohibitions are commonly known as the Stark Law. The Stark

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

Law prohibits a physician from referring Medicare patients to an entity providing designated health services, as defined under the Stark Law, including, without limitation, radiology services, in which the physician has an ownership or investment interest or with which the physician has entered into a compensation arrangement. The penalties for violating the Stark Law include a prohibition on payment by these governmental programs and civil penalties of as much as \$15,000 for each violation referral and \$100,000 for participation in a

18

circumvention scheme. We believe that, although we receive fees under our service agreements for management and administrative services, we are not in a position to make or influence referrals of patients.

On January 4, 2001, the Centers for Medicare and Medicaid Services published final regulations to implement the Stark Law. Under the final regulations, radiology and certain other imaging services and radiation therapy services and supplies are services included in the designated health services subject to the self-referral prohibition. Under the final regulations, such services include the professional and technical components of any diagnostic test or procedure using X-rays, ultrasound or other imaging services, CT, MRI, radiation therapy and diagnostic mammography services (but not screening mammography services). The final regulations, however, exclude from designated health services: (i) X-ray, fluoroscopy or ultrasound procedures that require the insertion of a needle, catheter, tube or probe through the skin or into a body orifice; (ii) radiology procedures that are integral to the performance of, and performed during, non-radiological medical procedures; (iii) nuclear medicine procedures; and (iv) invasive or interventional radiology, because the radiology services in these procedures are merely incidental or secondary to another procedure that the physician has ordered. Beginning January 1, 2007, PET and nuclear medicine procedures are included as designated health services under the Stark Law.

The Stark Law provides that a request by a radiologist for diagnostic radiology services or a request by a radiation oncologist for radiation therapy, if such services are furnished by or under the supervision of such radiologist or radiation oncologist pursuant to a consultation requested by another physician, does not constitute a referral by a referring physician. If such requirements are met, the Stark Law self-referral prohibition would not apply to such services. The effect of the Stark Law on the radiology practices, therefore, will depend on the precise scope of services furnished by each such practice's radiologists and whether such services derive from consultations or are self-generated. We believe that, other than self-referred patients, all of the services covered by the Stark Law provided by the contracted radiology practices derive from requests for consultation by non-affiliated physicians. Therefore, we believe that the Stark Law is not implicated by the financial relationships between our operations and the contracted radiology practices.

In addition, we believe that we have structured our acquisitions of the assets of existing practices, and we intend to structure any future acquisitions, so as not to violate the anti-kickback and Stark Law and regulations. Specifically, we believe the consideration paid by us to physicians to acquire the tangible and intangible assets associated with their practices is consistent with fair market value in arms' length transactions and is not intended to induce the referral of patients. Should any such practice be deemed to constitute an arrangement designed to induce the referral of Medicare or Medicaid patients, then our acquisitions could be viewed as possibly violating anti-kickback and anti-referral laws and regulations. A determination of liability under any such laws could have a material adverse effect on our business, financial condition and results of operations.

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

The federal government embarked on an initiative to audit all Medicare carriers, which are the companies that adjudicate and pay Medicare claims. These audits are expected to intensify governmental scrutiny of individual providers. An unsatisfactory audit of any of our diagnostic imaging facilities or contracted radiology practices could result in any or all of the following: significant repayment obligations, exclusion from the Medicare, Medicaid or other governmental programs, and civil and criminal penalties.

Federal regulatory and law enforcement authorities have increased enforcement activities with respect to Medicare, Medicaid fraud and abuse regulations and other reimbursement laws and rules, including laws and regulations that govern our activities and the activities of the radiology practices. Our or the radiology practices' activities may be investigated, claims may be made against us or the radiology practices and these increased enforcement activities may directly or indirectly have an adverse effect on our business, financial condition and results of operations.

STATE ANTI-KICKBACK AND PHYSICIAN SELF-REFERRAL LAWS

All of the states in which we now do business have adopted a form of anti-kickback law and a form of Stark Law. The scope of these laws and the interpretations of them are enforced by state courts and by regulatory authorities with broad discretion. Generally, state law covers all referrals by all healthcare providers for all healthcare services. A determination of liability under such laws could result in fines and penalties and restrictions on our ability to operate.

FEDERAL FALSE CLAIMS ACT

The Federal False Claims Act provides, in part, that the federal government may bring a lawsuit against any person who it believes has knowingly presented, or caused to be presented, a false or fraudulent request for payment from the federal government, or who has made a false statement or used a false record to get a claim approved. The Federal False Claims Act further provides that a lawsuit there under may be initiated in the name of the United States by an individual who is an original source of the allegations. The government has taken the position that claims presented in violation of the federal anti-kickback law or Stark Law may be considered a violation of the Federal False Claims Act. Penalties include civil penalties of not less than \$5,500 and not more than \$11,000 for each false claim, plus three times the amount of damages that the federal government sustained because of the act of that person. We believe that we are in compliance with the rules and regulations that apply to the Federal False Claims Act. However, we could be found to have violated certain rules and regulations resulting in sanctions under the Federal False Claims Act, and if we are so found in violation, any sanctions imposed could

19

result in fines and penalties and restrictions on and exclusion from participation in federal and state healthcare programs that are integral to our business.

HEALTHCARE REFORM INITIATIVES

Healthcare laws and regulations may change significantly in the future. We continuously monitor these developments and modify our operations from time to time as the regulatory environment changes. We cannot assure you, however, that we will be able to adapt our operations to address new regulations or that new regulations will not adversely affect our business. In addition, although we believe that we are operating in compliance with applicable federal and state laws, neither our current or anticipated business operations nor the operations

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

of the contracted radiology practices has been the subject of judicial or regulatory interpretation. We cannot assure you that a review of our business by courts or regulatory authorities will not result in a determination that could adversely affect our operations or that the healthcare regulatory environment will not change in a way that restricts our operations.

HEALTH INSURANCE PORTABILITY AND ACCOUNTABILITY ACT OF 1996

In an effort to combat healthcare fraud, Congress enacted the Health Insurance Portability and Accountability Act of 1996, or HIPAA. HIPAA, among other things, amends existing crimes and criminal penalties for Medicare fraud and enacts new federal healthcare fraud crimes, including actions affecting non-government payors. Under HIPAA, a healthcare benefit program includes any private plan or contract affecting interstate commerce under which any medical benefit, item or service is provided. A person or entity that knowingly and willfully obtains the money or property of any healthcare benefit program by means of false or fraudulent representations in connection with the delivery of healthcare services is subject to a fine or imprisonment, or potentially both. In addition, HIPAA authorizes the imposition of civil money penalties against entities that employ or enter into contracts with excluded Medicare or Medicaid program participants if such entities provide services to federal health program beneficiaries. A finding of liability under HIPAA could have a material adverse effect on our business, financial condition and results of operations.

Further, HIPAA requires healthcare providers and their business associates to maintain the privacy and security of individually identifiable health information. HIPAA imposes federal standards for electronic transactions with health plans, the security of electronic health information and for protecting the privacy of individually identifiable health information. Organizations such as ours were obligated to be compliant with the initial HIPAA regulations by April 14, 2003, and with the electronic data interchange mandates by October 16, 2003. The final security regulations were issued in February 2003 with a compliance date of April 2005. We believe that we are in compliance with the current requirements, but we anticipate that we may encounter certain costs associated with future compliance. A finding of liability under HIPAA's privacy or security provisions may also result in criminal and civil penalties, and could have a material adverse effect on our business, financial condition, and results of operations.

Although our electronic systems are HIPAA compatible, consistent with the HIPAA regulations, we cannot guarantee the enforcement agencies or courts will not make interpretations of the HIPAA standards that are inconsistent with ours, or the interpretations of the contracted radiology practices or their affiliated physicians. A finding of liability under the HIPAA standards may result in criminal and civil penalties. Noncompliance also may result in exclusion from participation in government programs, including Medicare and Medicaid. These actions could have a material adverse effect on our business, financial condition, and results of operations.

COMPLIANCE PROGRAM

We maintain a program to monitor compliance with federal and state laws and regulations applicable to healthcare entities. We have a compliance officer who is charged with implementing and supervising our compliance program, which includes the adoption of (i) Standards of Conduct for our employees and affiliates and (ii) a process that specifies how employees, affiliates and others may report regulatory or ethical concerns to our compliance officer. We believe that our compliance program meets the relevant standards provided by the Office of Inspector General of the Department of Health and Human Services.

An important part of our compliance program consists of conducting periodic audits of various aspects of our operations and that of the contracted

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

radiology practices. We also conduct mandatory educational programs designed to familiarize our employees with the regulatory requirements and specific elements of our compliance program.

U.S. FOOD AND DRUG ADMINISTRATION OR FDA

The FDA has issued the requisite pre-market approval for all of the MRI and CT systems we use. We do not believe that any further FDA approval is required in connection with the majority of equipment currently in operation or proposed to be operated. Except under regulations issued by the FDA pursuant to the Mammography Quality Standards Act of 1992, where all mammography facilities are required to be accredited by an approved non-profit organization or state agency. Pursuant to the accreditation process, each facility providing mammography services must comply with certain standards including annual inspection.

20

Compliance with these standards is required to obtain payment for Medicare services and to avoid various sanctions, including monetary penalties, or suspension of certification. Although the Mammography Accreditation Program of the American College of Radiology currently accredits all of our facilities, which provide mammography services, and we anticipate continuing to meet the requirements for accreditation, the withdrawal of such accreditation could result in the revocation of certification. Congress has extended Medicare benefits to include coverage of screening mammography subject to the prescribed quality standards described above. The regulations apply to diagnostic mammography and image quality examination as well as screening mammography.

RADIOLOGIST LICENSING

The radiologists providing professional medical services at our facilities are subject to licensing and related regulations by the states in which they provide services. As a result, we require BRMG and the other radiology groups with which we contract to require those radiologists to have and maintain appropriate licensure. We do not believe that such laws and regulations will either prohibit or require licensure approval of our business operations, although no assurances can be made that such laws and regulations will not be interpreted to extend such prohibitions or requirements to our operations.

INSURANCE LAWS AND REGULATION

States in which we operate have adopted certain laws and regulations affecting risk assumption in the healthcare industry, including those that subject any physician or physician network engaged in risk-based managed care to applicable insurance laws and regulations. These laws and regulations may require physicians and physician networks to meet minimum capital requirements and other safety and soundness requirements. Implementing additional regulations or compliance requirements could result in substantial costs to the contracted radiology practices, limiting their ability to enter into capitated or other risk-sharing managed care arrangements and indirectly affecting our revenue from the contracted practices.

ENVIRONMENTAL MATTERS

The facilities we operate or manage generate hazardous and medical waste subject to federal and state requirements regarding handling and disposal. We believe that the facilities that we operate and manage are currently in compliance in all material respects with applicable federal, state and local

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

statutes and ordinances regulating the handling and disposal of such materials. We do not believe that we will be required to expend any material additional amounts in order to remain in compliance with these laws and regulations or that compliance will materially affect our capital expenditures, earnings or competitive position.

DEFICIT REDUCTION ACT OF 2005

On February 8, 2006, the President signed into law the Deficit Reduction Act of 2005, referred to as the DRA. The DRA provides that reimbursement for the technical component for imaging services (excluding diagnostic and screening mammography) in non-hospital based freestanding facilities will be capped at the lesser of reimbursement under the Medicare Part B physician fee schedule or the Hospital Outpatient Prospective Payment System (HOPPS) schedule.

Prior to January 1, 2007, the technical component of our imaging services was reimbursed under the Part B physician fee schedule, which, in most cases, allows for higher reimbursement than under the HOPPS. Under the DRA, as of January 1, 2007 we are reimbursed at the lower of the two schedules.

The DRA also codifies the reduction in reimbursement for multiple images on contiguous body parts previously announced by the Centers for Medicare and Medicaid Services (CMS). In November 2005, CMS announced that it will pay 100% of the technical component of the higher priced imaging procedure and 50% of the technical component of each additional imaging procedure for imaging procedures involving contiguous body parts within a family of codes when performed in the same session. Under current methodology, Medicare pays 100% of the technical component of each procedure. CMS had indicated that it would phase in this rate reduction over two years, so that the reduction was 25% for each additional imaging procedure in 2006 and another 25% in 2007. CMS has issued a rule that eliminated the 25% reduction in 2007.

Implementation of the reimbursement reductions contained in the DRA has had a significant adverse effect on our business, financial condition and results of operations.

ITEM 1A. RISK FACTORS

RISKS RELATING TO OUR BUSINESS

CURRENT LEVELS OF MARKET VOLATILITY ARE UNPRECEDENTED AND ADVERSE CAPITAL AND CREDIT MARKET CONDITIONS MAY AFFECT OUR ABILITY TO ACCESS COST-EFFECTIVE SOURCES OF FUNDING.

21

The capital and credit markets have been experiencing extreme volatility and disruption which has led to uncertainty and liquidity issues for both borrowers and investors. We currently have in place financing arrangements which we anticipate will be sufficient to meet our needs for the next two years and we anticipate that our business will generate sufficient cash for us to service our debt.

In connection with our revolving line of credit we have some exposure to financial institutions which have come under pressure as a result of the current credit crisis. For example, GE Commercial Finance Healthcare Financial Services finances the largest portion of our \$55 million revolving credit facility. While GE has stated its GE Capital business to be sound, nevertheless, should it be unable to continue to provide funding under the revolving credit

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

facility, our ability to replace GE at this time, on favorable terms, or at all, would be difficult, which could have a material adverse effect on our business and results of operations.

THE CALIFORNIA BUDGET CRISIS, IF NOT SUCCESSFULLY RESOLVED COULD HAVE AN IMPACT ON OUR REVENUE.

California is experiencing a budget crisis which has resulted in significant state government cutbacks. 93 of our facilities are located in California. One to one-and-one-half percent (1% to 1.5%) of our revenues come from the California Medicaid program (\$5 million to \$7.5 million). While this is a relatively minor portion of our overall revenues, nevertheless, to the extent California is unable to provide these payments on a timely basis, or at all, our revenues will be negatively impacted.

OUR FAILURE TO INTEGRATE THE BUSINESSES WE ACQUIRE SUCCESSFULLY AND ON A TIMELY BASIS INTO OUR OPERATIONS COULD REDUCE OUR PROFITABILITY.

We expect that our acquisitions will generally result in some synergies, business opportunities and growth prospects. We, however, may never realize these expected synergies, business opportunities and growth prospects. We may experience increased competition that limits our ability to expand our business. We may not be able to capitalize on expected business opportunities, assumptions underlying estimates of expected cost savings may be inaccurate, or general industry and business conditions may deteriorate. In addition, integrating operations will require significant efforts and expenses on our part. Personnel may leave or be terminated because of an acquisition. Our management may have its attention diverted while trying to integrate an acquisition. If these factors limit our ability to integrate the operations of an acquisition successfully or on a timely basis, our expectations of future results of operations, including certain cost savings and synergies expected to result from the acquisition, may not be met. In addition, our growth and operating strategies for a target's business may be different from the strategies that the target company pursued prior to our acquisition. If our strategies are not the proper strategies, it could have a material adverse effect on our business, financial condition and results of operations.

WE HAVE EXPERIENCED OPERATING LOSSES AND WE HAVE A SUBSTANTIAL ACCUMULATED DEFICIT. IF WE ARE UNABLE TO IMPROVE OUR FINANCIAL PERFORMANCE, WE MAY BE UNABLE TO PAY OUR OBLIGATIONS.

We have incurred net losses of \$12.8 million, \$18.1 million, \$11.0 million and \$6.9 million for the years ended December 31, 2008 and 2007, the two months ended December 31, 2006, and the year ended October 31, 2006, respectively. We had a stockholders' deficit of \$81.1 million and \$69.8 million at December 31, 2008 and 2007, respectively. While we believe that our past actions have been successful in dealing with our liquidity and that in the future we will be able to address these issues and solidify our financial condition, we cannot give assurances that we will be able to generate sufficient cash flow from operations to satisfy our debt obligations.

WE MAY NOT BE ABLE TO GENERATE SUFFICIENT CASH FLOW TO MEET OUR DEBT SERVICE OBLIGATIONS.

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. Our inability to generate sufficient cash flow to satisfy our debt and other contractual obligations would adversely impact our business, financial condition and results of operations.

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

OUR ABILITY TO GENERATE REVENUE DEPENDS IN LARGE PART ON REFERRALS FROM PHYSICIANS.

A significant reduction in referrals would have a negative impact on our business. We derive substantially all of our net revenue, directly or indirectly, from fees charged for the diagnostic imaging services performed at our facilities. We depend on referrals of patients from unaffiliated physicians and other third parties who have no contractual obligations to refer patients to us for a substantial portion of the services we perform. If a sufficiently large number of these physicians and other third parties were to discontinue referring patients to us, our scan volume could decrease, which would reduce our net revenue and operating margins. Further, commercial third-party payors have implemented programs that could limit the ability of physicians to refer patients to us. For example, prepaid healthcare plans, such as health maintenance organizations, sometimes contract directly with providers and require their enrollees to obtain these services exclusively from those providers. Some insurance companies and self-insured employers also limit these

22

services to contracted providers. These "closed panel" systems are now common in the managed care environment. Other systems create an economic disincentive for referrals to providers outside the system's designated panel of providers. If we are unable to compete successfully for these managed care contracts, our results and prospects for growth could be adversely affected.

CHANGES IN THIRD-PARTY REIMBURSEMENT RATES OR METHODS FOR DIAGNOSTIC IMAGING SERVICES COULD RESULT IN A DECLINE IN OUR NET REVENUE AND NEGATIVELY IMPACT OUR BUSINESS.

The fees charged for the diagnostic imaging services performed at our facilities are paid by insurance companies, Medicare and Medicaid, workers compensation, private and other payors. Any change in the rates of or conditions for reimbursement from these sources of payment could substantially reduce the amounts reimbursed to us or to our contracted radiology practices for services provided, which could have a material adverse effect on our net revenue. For example, recent legislative changes in California's workers compensation rules had a negative impact on reimbursement rates for diagnostic imaging services, and federal Medicare changes taking effect beginning January 1, 2007 have also had a negative impact on the rates paid for MRI, CT and PET services.

PRESSURE TO CONTROL HEALTHCARE COSTS COULD HAVE A NEGATIVE IMPACT ON OUR RESULTS.

One of the principal objectives of health maintenance organizations and preferred provider organizations is to control the cost of healthcare services. Managed care contracting has become very competitive, and reimbursement schedules are at or below Medicare reimbursement levels. The development and expansion of health maintenance organizations, preferred provider organizations and other managed care organizations within the geographic areas covered by our network could have a negative impact on the utilization and pricing of our services, because these organizations will exert greater control over patients' access to diagnostic imaging services, the selections of the provider of such services and reimbursement rates for those services.

IF BRMG OR ANY OF OUR OTHER CONTRACTED RADIOLOGY PRACTICES TERMINATE THEIR AGREEMENTS WITH US, OUR BUSINESS COULD SUBSTANTIALLY DIMINISH.

Our relationship with BRMG is an integral part of our business. Through our management agreement, BRMG provides all of the professional medical services at 85 of our 93 California facilities with the balance of our other facilities

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

through management contracts with other radiology groups. BRMG and these other radiology groups contract with various other independent physicians and physician groups to provide all of the professional medical services at most of our facilities, and must use their best efforts to provide the professional medical services at any new facilities that we open or acquire in their areas of operation. In addition, the radiology groups' strong relationships with referring physicians are largely responsible for the revenue generated at the facilities they service. Although our management agreement with BRMG runs until 2014, and with the other groups for terms as long, if not longer, BRMG and the other radiology groups have the right to terminate the agreements if we default on our obligations and fail to cure the default. Also, the various radiology groups' ability to continue performing under the management agreements may be curtailed or eliminated due to the groups' financial difficulties, loss of physicians or other circumstances. If the radiology groups cannot perform their obligations to us, we would need to contract with one or more other radiology groups to provide the professional medical services at the facilities serviced by the group. We may not be able to locate radiology groups willing to provide those services on terms acceptable to us, if at all. Even if we were able to do so, any replacement radiology group's relationships with referring physicians may not be as extensive as those of the terminated group. In any such event, our business could be seriously harmed. In addition, the radiology groups are party to substantially all of the managed care contracts from which we derive revenue. If we were unable to readily replace these contracts, our revenue would be negatively affected.

IF OUR CONTRACTED RADIOLOGY PRACTICES, INCLUDING BRMG, LOSE A SIGNIFICANT NUMBER OF THEIR RADIOLOGISTS, OUR FINANCIAL RESULTS COULD BE ADVERSELY AFFECTED.

At times, there has been a shortage of qualified radiologists in some of the regional markets we serve. In addition, competition in recruiting radiologists may make it difficult for our contracted radiology practices to maintain adequate levels of radiologists. If a significant number of radiologists terminate their relationships with our contracted radiology practices and those radiology practices cannot recruit sufficient qualified radiologists to fulfill their obligations under our agreements with them, our ability to maximize the use of our diagnostic imaging facilities and our financial results could be adversely affected. For example, in fiscal 2002, due to a shortage of qualified radiologists in the marketplace, BRMG experienced difficulty in hiring and retaining physicians and thus engaged independent contractors and part-time fill-in physicians. Their cost was double the salary of a regular BRMG full-time physician. Increased expenses to BRMG will impact our financial results because the management fee we receive from BRMG, which is based on a percentage of BRMG's collections, is adjusted annually to take into account the expenses of BRMG. Neither we, nor our contracted radiology practices, maintain insurance on the lives of any affiliated physicians.

WE MAY NOT BE ABLE TO SUCCESSFULLY GROW OUR BUSINESS.

As part of our business strategy, we intend to increase our presence in the areas we serve through selectively acquiring facilities, developing new facilities, adding equipment at existing facilities, and directly or indirectly entering into contractual relationships with high-quality radiology practices.

23

However, our ability to successfully expand depends upon many factors, including our ability to:

- o Identify attractive and willing candidates for acquisitions;

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

- o Identify locations in existing or new markets for development of new facilities;
- o Comply with legal requirements affecting our arrangements with contracted radiology practices, including state prohibitions on fee-splitting, corporate practice of medicine and self-referrals;
- o Obtain regulatory approvals where necessary and comply with licensing and certification requirements applicable to our diagnostic imaging facilities, the contracted radiology practices and the physicians associated with the contracted radiology practices;
- o Recruit a sufficient number of qualified radiology technologists and other non-medical personnel;
- o Expand our infrastructure and management; and
- o Compete for opportunities. We may not be able to compete effectively for the acquisition of diagnostic imaging facilities. Our competitors may have more established operating histories and greater resources than we do. Competition also may make any acquisitions more expensive.

Acquisitions involve a number of special risks, including the following:

- o Inability to obtain adequate financing;
- o Possible adverse effects on our operating results;
- o Diversion of management's attention and resources;
- o Failure to retain key personnel;
- o Difficulties in integrating new operations into our existing infrastructure; and
- o Amortization or write-offs of acquired intangible assets.

WE MAY BECOME SUBJECT TO PROFESSIONAL MALPRACTICE LIABILITY.

Providing medical services subjects us to the risk of professional malpractice and other similar claims. The physicians that our contracted radiology practices employ are from time to time subject to malpractice claims. We structure our relationships with the practices under our management agreements with them in a manner that we believe does not constitute the practice of medicine by us or subject us to professional malpractice claims for acts or omissions of physicians employed by the contracted radiology practices. Nevertheless, claims, suits or complaints relating to services provided by the contracted radiology practices have been asserted against us in the past and may be asserted against us in the future. In addition, we may be subject to professional liability claims, including, without limitation, for improper use or malfunction of our diagnostic imaging equipment. We may not be able to maintain adequate liability insurance to protect us against those claims at acceptable costs or at all.

Any claim made against us that is not fully covered by insurance could be costly to defend, result in a substantial damage award against us and divert the attention of our management from our operations, all of which could have an adverse effect on our financial performance. In addition, successful claims

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

against us may adversely affect our business or reputation. Although California places a \$250,000 limit on non-economic damages for medical malpractice cases, no limit applies to economic damages and no such limits exist in the other states in which we now provide services. To reduce our exposure to claims incurred but not reported under the annual policy, the Company purchased an effective tail policy to cover all claims filed after December 31, 2008 relating to incidents prior to January 1, 2009, thus eliminating any liability for future claims made related to December 31, 2008 and prior.

SOME OF OUR IMAGING MODALITIES USE RADIOACTIVE MATERIALS, WHICH GENERATE REGULATED WASTE AND COULD SUBJECT US TO LIABILITIES FOR INJURIES OR VIOLATIONS OF ENVIRONMENTAL AND HEALTH AND SAFETY LAWS.

Some of our imaging procedures use radioactive materials, which generate medical and other regulated wastes. For example, patients are injected with a radioactive substance before undergoing a PET scan. Storage, use and disposal of these materials and waste products present the risk of accidental environmental contamination and physical injury. We are subject to federal, state and local regulations governing storage, handling and disposal of these materials. We could incur significant costs and the diversion of our management's attention in order to comply with current or future environmental and health and safety laws and regulations. Also, we cannot completely eliminate the risk of accidental contamination or injury from these hazardous materials. In the event of an accident, we could be held liable for any resulting damages, and any liability could exceed the limits of or fall outside the coverage of our insurance.

24

WE EXPERIENCE COMPETITION FROM OTHER DIAGNOSTIC IMAGING COMPANIES AND HOSPITALS. THIS COMPETITION COULD ADVERSELY AFFECT OUR REVENUE AND BUSINESS.

The market for diagnostic imaging services is highly competitive. We compete principally on the basis of our reputation, our ability to provide multiple modalities at many of our facilities, the location of our facilities and the quality of our diagnostic imaging services. We compete locally with groups of radiologists, established hospitals, clinics and other independent organizations that own and operate imaging equipment. Our major national competitors include Alliance Imaging, Inc., Medical Resources, Inc. and InSight Health Services. Some of our competitors may now or in the future have access to greater financial resources than we do and may have access to newer, more advanced equipment. In addition, some physician practices have established their own diagnostic imaging facilities within their group practices and compete with us. We are experiencing increased competition as a result of such activities.

STATE AND FEDERAL ANTI-KICKBACK AND ANTI-SELF-REFERRAL LAWS MAY ADVERSELY AFFECT INCOME.

Various federal and state laws govern financial arrangements among healthcare providers. The federal anti-kickback law prohibits the knowing and willful offer, payment, solicitation or receipt of any form of remuneration in return for, or to induce, the referral of Medicare, Medicaid, or other federal healthcare program patients, or in return for, or to induce, the purchase, lease or order of items or services that are covered by Medicare, Medicaid, or other federal healthcare programs. Similarly, many state laws prohibit the solicitation, payment or receipt of remuneration in return for, or to induce the referral of patients in private as well as government programs. Violation of these anti-kickback laws may result in substantial civil or criminal penalties for individuals or entities and/or exclusion from federal or state healthcare programs. We believe we are operating in compliance with applicable law and

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

believe that our arrangements with providers would not be found to violate the anti-kickback laws. However, these laws could be interpreted in a manner inconsistent with our operations.

Federal law prohibiting physician self-referrals (the "Stark Law") prohibits a physician from referring Medicare or Medicaid patients to an entity for certain "designated health services" if the physician has a prohibited financial relationship with that entity, unless an exception applies. Certain radiology services are considered "designated health services" under the Stark Law. Although we believe our operations do not violate the Stark Law, our activities may be challenged. If a challenge to our activities is successful, it could have an adverse effect on our operations. In addition, legislation may be enacted in the future that further addresses Medicare and Medicaid fraud and abuse or that imposes additional requirements or burdens on us.

All of the states in which our diagnostic imaging centers are located have adopted a form of anti-kickback law and almost all of those states have also adopted a form of Stark Law. The scope of these laws and the interpretations of them vary from state to state and are enforced by state courts and regulatory authorities, each with broad discretion. A determination of liability under the laws described in this risk factor could result in fines and penalties and restrictions on our ability to operate in these jurisdictions.

TECHNOLOGICAL CHANGE IN OUR INDUSTRY COULD REDUCE THE DEMAND FOR OUR SERVICES AND REQUIRE US TO INCUR SIGNIFICANT COSTS TO UPGRADE OUR EQUIPMENT.

The development of new technologies or refinements of existing modalities may require us to upgrade and enhance our existing equipment before we may otherwise intend. Many companies currently manufacture diagnostic imaging equipment. Competition among manufacturers for a greater share of the diagnostic imaging equipment market may result in technological advances in the speed and imaging capacity of new equipment. This may accelerate the obsolescence of our equipment, and we may not have the financial ability to acquire the new or improved equipment. In that event, we may be unable to deliver our services in the efficient and effective manner that payors, physicians and patients expect and thus our revenue could substantially decrease.

A FAILURE TO MEET OUR CAPITAL EXPENDITURE REQUIREMENTS COULD ADVERSELY AFFECT OUR BUSINESS.

We operate in a capital intensive, high fixed-cost industry that requires significant amounts of capital to fund operations, particularly the initial start-up and development expenses of new diagnostic imaging facilities and the acquisition of additional facilities and new diagnostic imaging equipment. We incur capital expenditures to, among other things, upgrade and replace existing equipment for existing facilities and expand within our existing markets and enter new markets. To the extent we are unable to generate sufficient cash from our operations, funds are not available from our lenders or we are unable to structure or obtain financing through operating leases, long-term installment notes or capital leases, we may be unable to meet our capital expenditure requirements.

BECAUSE WE HAVE HIGH FIXED COSTS, LOWER SCAN VOLUMES PER SYSTEM COULD ADVERSELY AFFECT OUR BUSINESS.

The principal components of our expenses, excluding depreciation, consist of compensation paid to technologists, salaries, real estate lease expenses and equipment maintenance costs. Because a majority of these expenses are fixed, a relatively small change in our revenue could have a

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

disproportionate effect on our operating and financial results depending on the source of our revenue. Thus, decreased revenue as a result of lower scan volumes per system could result in lower margins, which could materially adversely affect our business.

OUR SUCCESS DEPENDS IN PART ON OUR KEY PERSONNEL AND WE MAY NOT BE ABLE TO RETAIN SUFFICIENT QUALIFIED PERSONNEL. IN ADDITION, FORMER EMPLOYEES COULD USE THE EXPERIENCE AND RELATIONSHIPS DEVELOPED WHILE EMPLOYED WITH US TO COMPETE WITH US.

Our success depends in part on our ability to attract and retain qualified senior and executive management, managerial and technical personnel. Competition in recruiting these personnel may make it difficult for us to continue our growth and success. The loss of their services or our inability in the future to attract and retain management and other key personnel could hinder the implementation of our business strategy. The loss of the services of Dr. Howard G. Berger, our President and Chief Executive Officer, and Norman R. Hames or Stephen M. Forthuber, our Chief Operating Officers, west and east coast, respectively, could have a significant negative impact on our operations. We believe that they could not easily be replaced with executives of equal experience and capabilities. We do not maintain key person insurance on the life of any of our executive officers with the exception of a \$5.0 million policy on the life of Dr. Berger. Also, if we lose the services of Dr. Berger, our relationship with BRMG could deteriorate, which would adversely affect our business.

Many of the states in which we operate do not enforce agreements that prohibit a former employee from competing with a former employer. As a result, many of our employees whose employment is terminated are free to compete with us, subject to prohibitions on the use of confidential information and, depending on the terms of the employee's employment agreement, on solicitation of existing employees and customers. A former executive, manager or other key employee who joins one of our competitors could use the relationships he or she established with third party payors, radiologists or referring physicians while our employee and the industry knowledge he or she acquired during that tenure to enhance the new employer's ability to compete with us.

CAPITATION FEE ARRANGEMENTS COULD REDUCE OUR OPERATING MARGINS.

For fiscal 2008 we derived approximately 15% of our net revenue from capitation arrangements, and we intend to increase the revenue we derive from capitation arrangements in the future. Under capitation arrangements, the payor pays a pre-determined amount per-patient per-month in exchange for us providing all necessary covered services to the patients covered under the arrangement. These contracts pass much of the financial risk of providing diagnostic imaging services, including the risk of over-use, from the payor to the provider. Our success depends in part on our ability to negotiate effectively, on behalf of the contracted radiology practices and our diagnostic imaging facilities, contracts with health maintenance organizations, employer groups and other third-party payors for services to be provided on a capitated basis and to efficiently manage the utilization of those services. If we are not successful in managing the utilization of services under these capitation arrangements or if patients or enrollees covered by these contracts require more frequent or extensive care than anticipated, we would incur unanticipated costs not offset by additional revenue, which would reduce operating margins.

WE MAY BE UNABLE TO EFFECTIVELY MAINTAIN OUR EQUIPMENT OR GENERATE REVENUE WHEN OUR EQUIPMENT IS NOT OPERATIONAL.

Timely, effective service is essential to maintaining our reputation and high use rates on our imaging equipment. Although we have an agreement with

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

GE Medical Systems pursuant to which it maintains and repairs the majority of our imaging equipment, this agreement does not compensate us for loss of revenue when our systems are not fully operational and our business interruption insurance may not provide sufficient coverage for the loss of revenue. Also, GE Medical Systems may not be able to perform repairs or supply needed parts in a timely manner. Therefore, if we experience more equipment malfunctions than anticipated or if we are unable to promptly obtain the service necessary to keep our equipment functioning effectively, our ability to provide services would be adversely affected and our revenue could decline.

DISRUPTION OR MALFUNCTION IN OUR INFORMATION SYSTEMS COULD ADVERSELY AFFECT OUR BUSINESS.

Our information technology system is vulnerable to damage or interruption from:

- o Earthquakes, fires, floods and other natural disasters;
- o Power losses, computer systems failures, internet and telecommunications or data network failures, operator negligence, improper operation by or supervision of employees, physical and electronic losses of data and similar events; and
- o Computer viruses, penetration by hackers seeking to disrupt operations or misappropriate information and other breaches of security.

We rely on our information systems to perform functions critical to our ability to operate, including patient scheduling, billing, collections, image storage and image transmission. Accordingly, an extended interruption in the system's function could significantly curtail, directly and indirectly, our ability to conduct our business and generate revenue.

26

WE ARE VULNERABLE TO EARTHQUAKES AND OTHER NATURAL DISASTERS.

Our headquarters and 93 of our facilities are located in California, an area prone to earthquakes and other natural disasters. Three of our facilities are located in an area of Florida, which has suffered from hurricanes. An earthquake or other natural disaster could seriously impair our operations, and our insurance may not be sufficient to cover us for the resulting losses.

COMPLYING WITH FEDERAL AND STATE REGULATIONS IS AN EXPENSIVE AND TIME-CONSUMING PROCESS, AND ANY FAILURE TO COMPLY COULD RESULT IN SUBSTANTIAL PENALTIES.

We are directly or indirectly through the radiology practices with which we contract subject to extensive regulation by both the federal government and the state governments in which we provide services, including:

- o The federal False Claims Act;
- o The federal Medicare and Medicaid anti-kickback laws, and state anti-kickback prohibitions;
- o Federal and state billing and claims submission laws and regulations;
- o The federal Health Insurance Portability and Accountability Act of 1996;

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

- o The federal physician self-referral prohibition commonly known as the Stark Law and the state equivalent of the Stark Law;
- o State laws that prohibit the practice of medicine by non-physicians and prohibit fee-splitting arrangements involving physicians;
- o Federal and state laws governing the diagnostic imaging and therapeutic equipment we use in our business concerning patient safety, equipment operating specifications and radiation exposure levels; and
- o State laws governing reimbursement for diagnostic services related to services compensable under workers compensation rules.

If our operations are found to be in violation of any of the laws and regulations to which we or the radiology practices with which we contract are subject, we may be subject to the applicable penalty associated with the violation, including civil and criminal penalties, damages, fines and the curtailment of our operations. Any penalties, damages, fines or curtailment of our operations, individually or in the aggregate, could adversely affect our ability to operate our business and our financial results. The risks of our being found in violation of these laws and regulations is increased by the fact that many of them have not been fully interpreted by the regulatory authorities or the courts, and their provisions are open to a variety of interpretations. Any action brought against us for violation of these laws or regulations, even if we successfully defend against it, could cause us to incur significant legal expenses and divert our management's attention from the operation of our business. For a more detailed discussion of the various federal and state laws and regulations to which we are subject, see "Business - Regulation."

IF WE FAIL TO COMPLY WITH VARIOUS LICENSURE, CERTIFICATION AND ACCREDITATION STANDARDS, WE MAY BE SUBJECT TO LOSS OF LICENSURE, CERTIFICATION OR ACCREDITATION, WHICH WOULD ADVERSELY AFFECT OUR OPERATIONS.

Ownership, construction, operation, expansion and acquisition of our diagnostic imaging facilities are subject to various federal and state laws, regulations and approvals concerning licensing of personnel, other required certificates for certain types of healthcare facilities and certain medical equipment. In addition, freestanding diagnostic imaging facilities that provide services independent of a physician's office must be enrolled by Medicare as an independent diagnostic testing facility to bill the Medicare program. Medicare carriers have discretion in applying the independent diagnostic testing facility requirements and therefore the application of these requirements may vary from jurisdiction to jurisdiction. We may not be able to receive the required regulatory approvals for any future acquisitions, expansions or replacements, and the failure to obtain these approvals could limit the opportunity to expand our services.

Our facilities are subject to periodic inspection by governmental and other authorities to assure continued compliance with the various standards necessary for licensure and certification. If any facility loses its certification under the Medicare program, then the facility will be ineligible to receive reimbursement from the Medicare and Medicaid programs. For the year ended December 31, 2008, approximately 23% of our net revenue came from the Medicare and Medicaid programs. A change in the applicable certification status of one of our facilities could adversely affect our other facilities and in turn us as a whole. We have experienced a slowdown in the credentialing of our physicians over the last several years which has lengthened our billing and collection cycle, and could negatively impact our ability to collect revenue

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

from patients covered by Medicare. Credentialing of physicians is required by our payors prior to commencing payment.

27

OUR AGREEMENTS WITH THE CONTRACTED RADIOLOGY PRACTICES MUST BE STRUCTURED TO AVOID THE CORPORATE PRACTICE OF MEDICINE AND FEE-SPLITTING.

State law prohibits us from exercising control over the medical judgments or decisions of physicians and from engaging in certain financial arrangements, such as splitting professional fees with physicians. These laws are enforced by state courts and regulatory authorities, each with broad discretion. A component of our business has been to enter into management agreements with radiology practices. We provide management, administrative, technical and other non-medical services to the radiology practices in exchange for a service fee typically based on a percentage of the practice's revenue. We structure our relationships with the radiology practices, including the purchase of diagnostic imaging facilities, in a manner that we believe keeps us from engaging in the practice of medicine or exercising control over the medical judgments or decisions of the radiology practices or their physicians or violating the prohibitions against fee-splitting. However, because challenges to these types of arrangements are not required to be reported, we cannot substantiate our belief. There can be no assurance that our present arrangements with BRMG or the physicians providing medical services and medical supervision at our imaging facilities will not be challenged, and, if challenged, that they will not be found to violate the corporate practice prohibition, thus subjecting us to potential damages, injunction and/or civil and criminal penalties or require us to restructure our arrangements in a way that would affect the control or quality of our services and/or change the amounts we receive under our management agreements. Any of these results could jeopardize our business.

FUTURE FEDERAL LEGISLATION COULD LIMIT THE PRICES WE CAN CHARGE FOR OUR SERVICES, WHICH WOULD REDUCE OUR REVENUE AND ADVERSELY AFFECT OUR OPERATING RESULTS.

In addition to extensive existing government healthcare regulation, there are numerous initiatives affecting the coverage of and payment for healthcare services, including proposals that would significantly limit reimbursement under the Medicare and Medicaid programs. Limitations on reimbursement amounts and other cost containment pressures have in the past resulted in a decrease in the revenue we receive for each scan we perform.

THE REGULATORY FRAMEWORK IN WHICH WE OPERATE IS UNCERTAIN AND EVOLVING.

Healthcare laws and regulations may change significantly in the future. We continuously monitor these developments and modify our operations from time to time as the regulatory environment changes. We cannot assure you however, that we will be able to adapt our operations to address new regulations or that new regulations will not adversely affect our business. In addition, although we believe that we are operating in compliance with applicable federal and state laws, neither our current or anticipated business operations nor the operations of the contracted radiology practices have been the subject of judicial or regulatory interpretation. We cannot assure you that a review of our business by courts or regulatory authorities will not result in a determination that could adversely affect our operations or that the healthcare regulatory environment will not change in a way that restricts our operations.

Certain states have enacted statutes or adopted regulations affecting risk assumption in the healthcare industry, including statutes and regulations that subject any physician or physician network engaged in risk-based managed

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

care contracting to applicable insurance laws and regulations. These laws and regulations, if adopted in the states in which we operate, may require physicians and physician networks to meet minimum capital requirements and other safety and soundness requirements. Implementing additional regulations or compliance requirements could result in substantial costs to us and the contracted radiology practices and limit our ability to enter into capitation or other risk sharing managed care arrangements.

OUR SUBSTANTIAL DEBT COULD ADVERSELY AFFECT OUR FINANCIAL CONDITION AND PREVENT US FROM FULFILLING OUR OBLIGATIONS.

Our current substantial indebtedness and any future indebtedness we incur could adversely affect our financial condition, which could make it more difficult for us to satisfy our obligations to our creditors. Our substantial indebtedness could also:

- |X| Require us to dedicate a substantial portion of our cash flow from operations to payments on our debt, reducing the availability of our cash flow to fund working capital, capital expenditures, acquisitions and other general corporate purposes;
- |X| Increase our vulnerability to adverse general economic and industry conditions;
- |X| Limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- |X| Place us at a competitive disadvantage compared to our competitors that have less debt; and
- |X| Limit our ability to borrow additional funds on terms that are satisfactory to us or at all.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

28

ITEM 2. PROPERTIES

Our corporate headquarters is located in adjoining premises at 1508, 1510 and 1516 Cotner Avenue, Los Angeles, California 90025, in approximately 21,500 square feet occupied under leases, which expire (with options to extend) on June 30, 2017. In addition, we lease 52,941 square feet of warehouse and other space under leases, which expire at various dates through August 2020. We also occupy approximately 7,000 square feet in Dallas, Texas pursuant to a lease, which expires on September 30, 2011. We also have a regional office of approximately 39,000 square feet in Baltimore, Maryland under a lease, which expires September 30, 2012. Our facility lease terms vary in length from month to month to 15 years with renewal options upon prior written notice, from 1 year to 10 years depending upon the agreed upon terms with the local landlord. Facility lease amounts generally increase from 1% to 6% on an annual basis. We do not have options to purchase the facilities we rent.

ITEM 3. LEGAL PROCEEDINGS

We are engaged from time to time in the defense of lawsuits arising out of the ordinary course and conduct of our business. We believe that the outcome

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

of our current litigation will not have a material adverse impact on our business, financial condition and results of operations. However, we could be subsequently named as a defendant in other lawsuits that could adversely affect us.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Inapplicable

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is quoted on the NASDAQ Global Market under the symbol "RDNT." The following table indicates the high and low prices for our common stock for the periods indicated based upon information supplied by the NASDAQ Global Market. Such quotations have been adjusted to reflect interdealer prices without adjustment for retail mark-up, markdown or commission, and may not necessarily represent actual transactions.

	LOW	HIGH
QUARTER ENDED		
December 31, 2008	1.94	3.84
September 30, 2008	3.53	6.60
June 30, 2008	6.09	7.75
March 31, 2008	\$6.23	\$9.64
December 31, 2007	8.31	10.39
September 30, 2007	7.81	10.57
June 30, 2007	5.38	9.60
March 31, 2007	\$4.50	\$6.67

The last low and high prices for our common stock on the NASDAQ Global Market on March 10, 2009 were \$0.97 and \$1.06, respectively. As of March 10, 2009, the number of holders of record of our common stock was 3,786. However, Cede & Co., the nominee for The Depository Trust Company, the clearing agency for most broker-dealers, owned a substantial number of our outstanding shares of common stock of record on that date. Our management believes that customers of these broker-dealers beneficially own these shares and that the number of beneficial owners of our common stock is approximately 4,000.

STOCK PERFORMANCE GRAPH

The following graph compares the yearly percentage change in cumulative total stockholder return of the Company's Common Stock during the period from 2003 to 2008 with (i) the cumulative total return of the S&P500 index and (ii) the cumulative total return of the S&P500 - Healthcare Sector index. The comparison assumes \$100 was invested in October 31, 2003 in the Common Stock and in each of the foregoing indices and the reinvestment of dividends through January 1, 2009. The stock price performance on the following graph is not necessarily indicative of future stock price performance.

This graph shall not be deemed incorporated by reference by any general statement incorporating by reference this Form 10-K into any filing under the Securities Act or under the Exchange Act, except to the extent that RadNet specifically incorporates this information by reference, and shall not otherwise be deemed filed under such Acts.

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

We did not pay dividends in fiscal 2007 or 2008 and we do not expect to pay any dividends in the foreseeable future.

[Comparison of Cumulative Five Year Total Return Graph appears here]

TOTAL RETURN TO SHAREHOLDERS (INCLUDES REINVESTMENT OF DIVIDENDS)

COMPANY / INDEX	ANNUAL RETURN PERCENTAGE YEARS ENDING			
	10/29/04	10/31/05	10/31/06	12/29/07
RADNET, INC.	14.29	-33.93	594.59	-10.1
S&P 500 INDEX	9.42	8.72	16.34	3.3
S&P HEALTH CARE SECTOR	1.76	9.57	11.36	0.9

COMPANY / INDEX	BASE PERIOD 10/31/03	INDEXED RETURNS YEARS ENDING			
		10/29/04	10/31/05	10/31/06	12/29/07
RADNET, INC.	100	114.29	75.51	524.49	471.4
S&P 500 INDEX	100	109.42	118.96	138.40	143.0
S&P HEALTH CARE SECTOR	100	101.76	111.49	124.16	125.2

RECENT SALES OF UNREGISTERED SECURITIES

During the fiscal year ended December 31, 2008, we sold the following securities pursuant to an exemption from registration provided under Section 4(2) of the Securities Act of 1933, as amended:

- o In October 2008, we issued to two radiologists in order retain their employment with BRMG, five-year warrants exercisable at a price of \$3.24 per share, which was the public market closing price for our common stock on the transaction date, to purchase 75,000 shares and 35,000 shares of our common stock, respectively.
- o In November 2008, we issued to a radiologist in order to retain his employment with BRMG, a five-year warrant exercisable at a price of \$3.29 per share, which was the public market closing price of our common stock on the transaction date, to purchase 50,000 shares of our common stock.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following table sets forth our selected historical consolidated

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

financial data. The selected consolidated statements of operations data set forth below for the years ended December 31, 2008 and 2007, the year ended October 31, 2006, the two months ended December 31, 2006, and the consolidated balance sheet data as of December 31, 2008 and 2007, are derived from our audited consolidated financial statements and notes thereto included elsewhere herein. The selected historical consolidated statements of operations data set forth below for the years ended October 31, 2005 and 2004, and the consolidated balance sheet data set forth below as of December 31, 2006 and October 31, 2006, 2005 and 2004 are derived from our audited consolidated financial statements not included herein. This data should be read in conjunction with and is qualified in its entirety by reference to the audited consolidated financial statements and the related notes included elsewhere in this Form 10-K and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

The financial data set forth below and discussed in this Annual Report are derived from the consolidated financial statements of RadNet, its subsidiaries and certain affiliates. 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 guidance issued by the Emerging Issues Task Force, or EITF, of the Financial Accounting Standards Board, or FASB, in EITF's release 97-2. Due to the deemed controlling financial interest, we are required to include BRMG as a consolidated entity in our consolidated financial statements. This means, for example, that revenue generated by BRMG from the provision of professional medical services to our patients, as well as BRMG's costs of providing those services, are included as net revenue in our consolidated statement of operations, whereas the management fee that BRMG pays to us under our management agreement with BRMG is eliminated as a result of the consolidation of our results with those of BRMG. Also, because BRMG is a consolidated entity in our financial statements, any borrowings or advances we have received from or made to BRMG have been eliminated in our consolidated balance sheet. If BRMG were not treated as a consolidated entity in our consolidated financial statements, the presentation of certain items in our income statement, such as net revenue and costs and expenses, would change but our net income would not, because in operation and historically, the annual revenue of BRMG from all sources closely approximates its expenses, including Dr. Berger's compensation, fees payable to us and amounts payable to third parties.

30

	YEARS ENDED December 31,			TWO MONTHS ENDED DECEMBER 31,	
	2008	2007	2006	2006	2005
			(UNAUDITED)		(UNAUDITED)
	(DOLLARS IN THOUSANDS, EXCEPT P				
Statement of Operations Data:					
Net revenue	\$ 502,118	\$ 425,470	\$ 192,859	\$ 57,374	\$ 22,52
Operating expenses:					
Operating expenses	384,297	330,550	147,226	46,033	19,14
Depreciation and amortization	53,548	45,281	19,542	5,907	2,75
Provision for bad debts	30,832	27,467	10,707	3,907	82
Loss (gain) on disposal of equipment, net	516	72	335	(38)	-
Gain from sale of joint venture interests	--	(1,868)	--	--	-

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

Net loss	(12,836)	(18,131)	(17,722)	(10,983)	(15,000)
Basic and diluted loss per share	(0.36)	(0.52)	(0.57)	(0.35)	(0.00)

Balance Sheet Data:

Cash and cash equivalents	\$ --	\$ 18	\$ 3,221	\$ 3,221	\$ --
Total assets	495,572	433,620	394,766	394,766	119,111
Total long-term liabilities	469,994	428,743	381,903	381,903	23,588
Total liabilities and minority interests	576,680	503,450	441,762	441,762	189,722
Working capital (deficit)	1,962	23,180	31,230	31,230	(141,588)
Stockholders' deficit	(81,108)	(69,830)	(46,996)	(46,996)	(70,611)

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

We operate a group of regional networks comprised of 164 diagnostic imaging facilities located in six states with operations in California, Delaware, Maryland, 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, or MRI, computed tomography, or CT, positron emission tomography, or 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 18% 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 the majority 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. 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, per the management agreement. Through the management agreement and our relationship with Dr. Berger, we have exclusive authority over all non-medical

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

decision making related to the ongoing business operations of BRMG. Based on the provisions of the agreement, we have determined that BRMG is a variable interest entity, and that we are the primary beneficiary as defined in Financial Accounting Standards Board (FASB) Interpretation No. 46 (revised December 2003), CONSOLIDATION OF VARIABLE INTEREST ENTITIES, AN INTERPRETATION OF ARB NO. 51 (FIN 46(R)), and consequently, we consolidate the revenue and expenses of BRMG. All intercompany balances and transactions have been eliminated in consolidation.

31

At a portion of our 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. These third party radiology practices provide professional services, including supervision and interpretation of diagnostic imaging procedures, in our diagnostic imaging centers. The radiology practices maintain full control over the provision of professional services. 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.

LIQUIDITY AND CAPITAL RESOURCES

We had a working capital balance of \$2.0 million and \$23.2 million at December 31, 2008 and 2007, respectively. We had net losses of \$12.8 million, \$18.1 million, \$11.0 million and \$6.9 million for the years ended December 31, 2008 and 2007, the two months ended December 31, 2006, and the year ended October 31, 2006, respectively. We also had a stockholders' deficit of \$81.1 million and \$69.8 million at December 31, 2008 and 2007, respectively.

We operate in a capital intensive, high fixed-cost industry that requires significant amounts of capital to fund operations. In addition to operations, we require 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 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 or have entered into capital leases.

Our business strategy with regard to operations focuses on the following:

- |X| Maximizing performance at our existing facilities;
- |X| Focusing on profitable contracting;

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

- |X| Expanding MRI, CT and PET applications;
- |X| Optimizing operating efficiencies; and
- |X| 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 \$45.2 million, \$29.2 million, \$440,000 and \$10.3 million for the years ended December 31, 2008 and 2007, the two months ended December 31, 2006 and the year ended October 31, 2006, respectively.

Cash used in investing activities was \$56.0 million, \$45.9 million, and \$13.5 million for the years ended December 31, 2008, 2007, and October 31, 2006, respectively. Cash provided by investing activities for the two months ended December 31, 2006 was \$10.2 million. For the year ended December 31, 2008, we purchased property and equipment for approximately \$29.2 million and acquired the assets and businesses of additional imaging facilities for approximately \$28.9 million (see Note 2 to our consolidated financial statements). We also generated \$3.0 million from the sale of equipment.

Cash provided by financing activities was \$10.8 million, \$13.5 million and \$3.2 million for the years ended December 31, 2008 and 2007, and October 31, 2006, respectively. Cash used in financing activities for the two months ended December 31, 2006 was \$7.4 million. The cash provided by financing activities for the year ended December 31, 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 offset by principal payments on notes and leases payable of \$19 million.

32

CONTRACTUAL COMMITMENTS

Our future obligations for notes payable, equipment under capital leases, lines of credit, equipment and building operating leases and purchase and other contractual obligations for the next five years and thereafter include (dollars in thousands):

	2009	2010	2011	2012	2013	THEREAFT
	-----	-----	-----	-----	-----	-----
Notes payable (1)	\$ 46,444	\$ 38,907	\$ 39,168	\$270,009	\$177,368	\$ -
Capital leases (2)	17,700	13,597	8,288	4,155	615	-

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

Operating leases (3)	38,531	35,441	28,852	24,933	20,827	74,77
	-----	-----	-----	-----	-----	-----
Total	\$102,675	\$ 87,945	\$ 76,308	\$299,097	\$198,810	\$ 74,77
	=====	=====	=====	=====	=====	=====

- (1) Includes variable rate debt for which the contractual obligation was estimated using the applicable rate as of December 31, 2008.
- (2) Includes interest component of capital lease obligations.
- (3) Includes all existing options to extend lease terms that are reasonably assured to be exercised.

We have an arrangement with GE Medical Systems under which it has agreed to be responsible for the maintenance and repair of a majority of our equipment for a fee that is based upon a percentage of our revenue, subject to a minimum payment. Net revenue is reduced by the provision for bad debts, mobile PET revenue and other professional reading service revenue to obtain adjusted net revenue.

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.

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

The Securities and Exchange Commission, or 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. In Note 4 to our consolidated financial statements, we discuss our significant accounting policies, including those that do not require management to make difficult, subjective or complex judgments or estimates. The most significant areas involving management's judgments and estimates are described below.

REVENUE RECOGNITION

Our consolidated net revenue consists of net patient fee for service revenue and revenue from capitation arrangements, or capitation revenue. Net patient service revenue is recognized at the time services are provided net of contractual adjustments based on our evaluation of expected collections resulting from the analysis of current and past due accounts, past collection experience in relation to amounts billed and other relevant information. The amount of expected collection is continually adjusted as more information is

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

received and such adjustments are recorded in current operations. Contractual adjustments result from the differences between the rates charged for services performed and reimbursements by government-sponsored healthcare programs and insurance companies for such services. Capitation revenue is recognized as revenue during the period in which we were obligated to provide services to plan enrollees under contracts with various health plans. Under these contracts, we receive a per-enrollee amount each month covering all contracted services needed by the plan enrollees.

ACCOUNTS RECEIVABLE

Substantially all of our accounts receivable are due under fee-for-service contracts from third party payors, such as insurance companies and government-sponsored healthcare programs, or directly from patients. Services are generally provided pursuant to one-year contracts with healthcare providers. Receivables generally are collected within industry norms for third-party payors. We continuously monitor collections from our clients and

33

maintain an allowance for bad debts based upon specific payor collection issues that we have identified and our historical experience.

DEPRECIATION AND AMORTIZATION OF LONG-LIVED ASSETS

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

DEFERRED TAX ASSETS

We evaluate the realizability of the net deferred tax assets and assess the valuation allowance periodically. If future taxable income or other factors are not consistent with our expectations, an adjustment to our allowance for net deferred tax assets may be required. Even though we expect to utilize our net operating loss carry forwards in the future, the last three fiscal year losses and available evidence cause the valuation of our net deferred tax assets to be uncertain in the near term. As of December 31, 2008, we have provided a full allowance on our net deferred tax assets.

VALUATION OF GOODWILL AND LONG-LIVED ASSETS

Goodwill at December 31, 2008 totaled \$105.3 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 in accordance with Statement of Financial Accounting Standards, or SFAS, No. 142, "Goodwill and Other Intangible Assets." Impairment of goodwill is tested at the reporting unit level by comparing the reporting unit's carrying amount, including goodwill, to the fair value of the reporting unit. The fair value of a reporting unit is estimated using a combination of the income or discounted cash flows approach and the market approach, which uses comparable market data. If the carrying amount of the reporting unit exceeds its fair value, goodwill is considered impaired and a second step is performed to measure the amount of impairment loss, if any. Using the services of an external valuation expert, we performed our annual impairment test of goodwill as of October 1, 2008. Based on our analysis, we recorded no impairment loss related to goodwill in 2008. However, if estimates or the related assumptions change in the future, we may be required to record impairment charges to reduce the carrying amount of goodwill.

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

We evaluate long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." An asset is considered impaired if its carrying amount exceeds the future net cash flow the asset is expected to generate. If such asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair market value. We assess the recoverability of our long-lived and intangible assets by determining whether the unamortized balances can be recovered through undiscounted future net cash flows of the related assets.

DERIVATIVE FINANCIAL INSTRUMENTS

The Company holds derivative financial instruments for the purpose of hedging the risks of certain identifiable and anticipated transactions. In general, the types of risks hedged are those relating to the variability of cash flows caused by movements in interest rates. 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. Our 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. We do 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. Amounts in accumulated other comprehensive income are reclassified into net income in the same period in which the hedged forecasted transaction affects earnings.

MEDICAL MALPRACTICE INSURANCE

We and our affiliated physicians are insured by Fairway Physicians Insurance Company. Fairway provides claims-made malpractice insurance coverage that covers only asserted malpractice claims made during the policy period and within policy limits. To reduce our exposure to claims incurred but not reported under the annual policy, the Company purchased an effective tail policy to cover all claims filed after December 31, 2008 relating to incidents prior to January 1, 2009, thus eliminating any liability for future claims made related to December 31, 2008 and prior.

34

FACILITY ACQUISITIONS AND DIVESTITURES

ACQUISITIONS

On October 31, 2008, we acquired the assets and business of Middletown Imaging in Middletown, Delaware for \$210,000 in cash and the assumption of capital lease debt of \$1.2 million. We made a preliminary purchase price allocation of the acquired assets and liabilities, and approximately \$530,000 of goodwill was recorded with respect to this transaction.

On August 15, 2008, we acquired the women's imaging practice of Parvis Gamagami, M.D., Inc. in Van Nuys, CA for \$600,000. Upon acquisition, we

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

relocated the practice to a nearby center we recently acquired from InSight Health in Encino, CA. We rebranded the InSight center as the Encino Breast Care Center, and focused it on Digital Mammography, Ultrasound, MRI and other modalities pertaining to women's health. We allocated the full purchase price of \$600,000 to goodwill.

On July 23, 2008, we acquired 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. We made a preliminary purchase price allocation of the acquired assets and liabilities, and approximately \$2.6 million of goodwill was recorded with respect to this transaction.

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 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 made a preliminary purchase price allocation of the acquired assets and liabilities, and approximately \$313,000 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 Mammography. We made a preliminary purchase price allocation of the acquired assets and liabilities, and approximately \$5.6 million of goodwill was recorded with respect to this transaction.

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 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 made a preliminary purchase price allocation of the acquired assets and liabilities, and approximately \$3.6 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

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

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 made a preliminary purchase price allocation of the acquired assets and liabilities, and approximately \$5.6 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.

35

Approximately \$3.0 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 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 \$8.9 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 reducing our

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

ownership to 49%. As a result of this transaction, we no longer consolidate this joint venture. Accordingly, our consolidated balance sheet at 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.

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.

36

RADNET, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF OPERATIONS

	YEARS ENDED DECEMBER 31,		TWO MONTHS EN DECEMBER 31
	2008	2007	2006
	-----	-----	-----
NET REVENUE	100.0%	100.0%	100.0%
OPERATING EXPENSES			
Operating expenses	76.5%	77.7%	80.2%
Depreciation and amortization	10.7%	10.6%	10.3%
Provision for bad debts	6.1%	6.5%	6.8%
Loss (gain) on sale of equipment	0.1%	0.0%	-0.1%
Severance costs	0.1%	0.2%	0.4%
Total operating expenses	93.5%	95.0%	97.6%
INCOME FROM OPERATIONS	6.5%	5.0%	2.4%
OTHER EXPENSES (INCOME)			
Interest expense	10.3%	10.4%	9.8%
Gain from sale of joint venture interest	0.0%	-0.4%	0.0%
Loss (gain) on debt extinguishment, net	0.0%	0.0%	12.6%
Other (income) expense	0.0%	0.0%	-0.1%
Total other expense	10.3%	10.0%	22.3%
LOSS BEFORE INCOME TAXES, MINORITY INTERESTS AND EARNINGS FROM MINORITY INVESTMENTS	-3.8%	-5.0%	-19.9%

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

Provision for income taxes	0.0%	-0.1%	0.0%
Minority interest in (income) loss of subsidiaries	0.0%	-0.1%	-0.1%
Equity in earnings of joint ventures	1.3%	1.0%	0.9%
	-----	-----	-----
NET LOSS	-2.6%	-4.3%	-19.1%
	=====	=====	=====

YEAR ENDED DECEMBER 31, 2008 COMPARED TO THE YEAR ENDED DECEMBER 31, 2007

NET REVENUE

Net revenue for the year ended December 31, 2008 was \$502.1 million compared to \$425.5 million for the year ended December 31, 2007, an increase of \$76.6 million, or 18.0%.

Net revenue, including only those centers which were in operation throughout the full fiscal years of both 2008 and 2007, increased \$28.6 million, or 7.1%. This 7.1% 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 1, 2007. For the year ended December 31, 2008, net revenue from centers that were acquired subsequent to January 1, 2007 and excluded from the above comparison was \$70.0 million. For the year ended December 31, 2007, net revenue from centers that were acquired subsequent to January 1, 2007 and excluded from the above comparison was \$10.6 million. Also excluded was \$11.4 million from centers that were divested subsequent to January 1, 2007.

OPERATING EXPENSES

Operating expenses for the year ended December 31, 2008 increased approximately \$53.7 million, or 16.3%, from \$330.6 million for the year ended December 31, 2007 to \$384.3 million for the year ended December 31, 2008. The following table sets forth our operating expenses for the years ended December 31, 2008 and 2007 (in thousands):

	YEARS ENDED DECEMBER 31,	
	2008	2007
	-----	-----
Salaries and professional reading fees, excluding stock compensation	\$210,450	\$178,573
Stock compensation	2,902	3,313
Building and equipment rental	43,478	41,299
General administrative expenses	127,467	107,245
NASDAQ one-time listing fee	--	120
	-----	-----
Operating expenses	384,297	330,550
Depreciation and amortization	53,548	45,281
Provision for bad debts	30,832	27,467
Loss on sale of equipment, net	516	72
Severance costs	335	934
	-----	-----
Total operating expenses	\$469,528	\$404,304
	=====	=====

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

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

Salaries and professional reading fees increased \$31.9 million, or 17.9%, to \$210.5 million for the year ended December 31, 2008 compared to \$178.6 million for the year ended December 31, 2007.

Salaries and professional reading fees, including only those centers which were in operation throughout the full fiscal years of both 2008 and 2007 increased \$12.7 million, or 7.1%. This 7.1% increase is primarily due to increased salaries and staffing to support the revenue growth of these existing imaging centers. This comparison excludes contributions from centers that were acquired or divested subsequent to January 1, 2007. For the year ended December 31, 2008, salaries and professional reading fees from centers that were acquired subsequent to January 1, 2007 and excluded from the above comparison was \$25.6 million. For the year ended December 31, 2007, salaries and professional reading fees from centers that were acquired subsequent to January 1, 2007 and excluded from the above comparison was \$3.2 million. Also excluded was \$3.2 million from centers that were divested subsequent to January 1, 2007.

- SHARE-BASED COMPENSATION

Share-based compensation decreased \$411,000, or 12.4%, to \$2.9 million for the year ended December 31, 2008 compared to \$3.3 million for the year ended December 31, 2007. Share-based compensation for the year ended December 31, 2007 included \$1.7 million of additional stock based compensation expense as a result of the acceleration of vesting of certain warrants.

- BUILDING AND EQUIPMENT RENTAL

Building and equipment rental expenses increased \$2.2 million, or 5.3%, to \$43.5 million for the year ended December 31, 2008 compared to \$41.3 million for the year ended December 31, 2007.

Building and equipment rental expenses, including only those centers which were in operation throughout the full fiscal years of both 2008 and 2007 decreased \$1.7 million, or 4.2%. This 4.2% 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 1, 2007. For the year ended December 31, 2008, building and equipment rental expenses from centers that were acquired subsequent to January 1, 2007 and excluded from the above comparison was \$6.4 million. For the year ended December 31, 2007, building and equipment rental expenses from centers that were acquired subsequent to January 1, 2007 and excluded from the above comparison was \$1.2 million. Also excluded was \$1.3 million from centers that were divested subsequent to January 1, 2007.

- 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

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

of net revenue. Overall, general and administrative expenses increased

38

\$20.2 million, or 18.8%, for the year ended December 31, 2008 compared to the previous period. The increase is consistent with our increase in procedure volumes at both existing centers as well as newly acquired centers.

o DEPRECIATION AND AMORTIZATION EXPENSE

Depreciation and amortization expense increased \$8.3 million, or 18.3%, to \$53.6 million for the year ended December 31, 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.

o PROVISION FOR BAD DEBTS

Provision for bad debts increased \$3.3 million, or 12.3%, to \$30.8 million, or 6.1% of net revenue, for the year ended December 31, 2008 compared to \$27.5 million, or 6.4% of net revenue, for the year ended December 31, 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.

o LOSS ON SALE OF EQUIPMENT

Loss on sale of equipment was \$516,000 and \$72,000 for the years ended December 31, 2008 and 2007, respectively.

o SEVERANCE COSTS

During the year ended December 31, 2008, we recorded severance costs of \$335,000 compared to \$934,000 recorded during the year ended December 31, 2007. In each period, these costs were primarily associated with the integration of Radiologix and other acquired operations.

INTEREST EXPENSE

Interest expense for the year ended December 31, 2008 increased approximately \$7.5 million, or 16.9%, 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 our line of credit. Also included in interest expense for the year ended December 31, 2008 and 2007 is amortization of deferred loan costs of \$2.6 million and \$1.6 million, respectively, as well as realized gains of \$707,000 and realized losses of \$820,000 on our fair value hedges for the years ended December 31, 2008 and 2007, respectively.

INCOME TAX EXPENSE

For the years ended December 31, 2008 and 2007, we recorded \$151,000 and \$337,000, respectively, for income tax expense related to taxable income generated in the state of Maryland.

EQUITY IN EARNINGS FROM UNCONSOLIDATED JOINT VENTURES

For the year ended December 31, 2008, we recognized equity in earnings from unconsolidated joint ventures of \$6.5 million compared to \$4.1 million for the year ended December 31, 2007. This increase is due to our purchase of

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

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.

YEAR ENDED DECEMBER 31, 2007 COMPARED TO THE YEAR ENDED DECEMBER 31, 2006
(UNAUDITED)

During the year ended December 31, 2006, we completed our acquisition of Radiologix. The results of Radiologix and its wholly owned subsidiaries have been included in our consolidated financial statements from the date of acquisition, November 15, 2006.

NET REVENUE

Net revenue from continuing operations for the year ended December 31, 2007 was \$425.5 million compared to \$192.9 million for the year ended December 31, 2006, an increase of \$232.6 million, or 120.6 %. Net revenue from the acquisition of Radiologix, effective November 15, 2006, was \$264.3 million and \$30.5 million for the years ended December 31, 2007 and 2006, respectively. Net revenue excluding Radiologix increased \$7.3 million for the year ended December 31, 2007 when compared to the year ended December 31, 2006. This increase is mainly due to an increase in procedure volumes from existing centers as well as from the addition of new centers and is net of the effects of reimbursement reductions experienced as a result of the government's reduction of certain Medicare payments (DRA), which became effective in January 2007.

During 2007, we re-evaluated the net realizable value of our December 31, 2006 receivable balances and concluded that current revised estimates are less than the prior year recorded amounts. As a result, we have recorded adjustments

39

in 2007 to appropriately reflect current estimates of the net realizable value of our December 31, 2006 receivables which decreased 2007 net revenue by \$8.5 million.

OPERATING EXPENSES

Operating expenses from continuing operations for the year ended December 31, 2007 increased approximately \$227.3 million, or 127.1%, to \$404.3 million for the year ended December 31, 2007 compared to \$177.0 million for the year ended December 31, 2006. The following table sets forth our operating expenses for the years ended December 31, 2007 and 2006 (dollars in thousands):

	YEARS ENDED DECEMBER 31,	
	2007	2006
	(UNAUDITED)	
Salaries and professional reading fees, excluding stock compensation	\$178,573	\$ 88,514
Stock compensation	3,313	510
Building and equipment rental	41,299	13,536
General administrative expenses	107,245	44,666
NASDAQ one-time listing fee	120	--
	330,550	147,226
Operating expenses		
Depreciation and amortization	45,281	19,542
Provision for bad debts	27,467	10,707

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

Loss on sale of equipment, net	72	335
Severance costs	934	205
	-----	-----
Total operating expenses	\$404,304	\$178,015
	=====	=====

o SALARIES AND PROFESSIONAL READING FEES (EXCLUDING STOCK COMPENSATION AND SEVERANCE)

Salaries and professional reading fees increased \$90.1 million, or 101.7%, to \$178.6 million for the year ended December 31, 2007 compared to \$88.5 million for the year ended December 31, 2006. Salaries and professional reading fees from Radiologix were \$90.2 million and \$11.2 million for the years ended December 31, 2007 and 2006, respectively. Salaries excluding Radiologix increased \$11.1 million for the year ended December 31, 2007 when compared to the same period last year. This increase includes a \$600,000 accrual for a cash bonus tied to the vesting of certain warrants. The remaining increase of \$10.5 million is consistent with DRA effected increases in net revenue and increases in our procedure volumes.

o STOCK BASED COMPENSATION

Stock compensation increased \$2.8 million to \$3.3 million for the year ended December 31, 2007 compared to \$510,000 for the year ended December 31, 2006. This increase is primarily due to additional options and warrants granted during 2007 and \$1.7 million of additional stock based compensation expense recorded during 2007 as a result of the vesting of certain warrants to our senior executives.

Messrs. Linden, Hames and Stolper who hold the positions of Executive Vice President and General Counsel, Executive Vice President and Chief Operating Officer, Western Operations and Executive Vice President and Chief Financial Officer, respectively, were issued certain warrants in prior periods which fully vest upon the sooner of their respective multi-year vesting schedules or at such time as the 30 day average closing stock price of our shares in the public market in which it trades equals or exceeds \$6.00. For the 30 day trading period ended March 7, 2007, the average closing price exceeded \$6.00 per share. Accordingly, these warrants fully vested resulting in the expensing of the remaining unamortized fair value of these warrants of \$1.7 million.

o SEVERANCE

During the year ended December 31, 2007, we recorded severance costs of \$934,000 associated with the integration of Radiologix.

40

o BUILDING AND EQUIPMENT RENTAL

Building and equipment rental expenses increased \$28.0 million, or 206.4%, to \$41.5 million for the year ended December 31, 2007 compared to \$13.5 million for the year ended December 31, 2006. Building and equipment rental expense from Radiologix was \$29.8 million and \$4.0 million for the years ended December 31, 2007 and 2006, respectively. Building and equipment rental expenses excluding Radiologix increased \$2.0 million for the year ended December 31, 2007 when compared to the same period in the previous year. The increase was due to normal

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

consumer price index escalations built into existing operating leases as well as additional facility rent from new centers including approximately \$288,000 from centers acquired during 2007 (see Note 3 to our consolidated financial statements). Also included in this increase is \$381,000 resulting from straight-lining the fixed rent escalators existing in some of our lease contracts.

o 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, which adjust with changes in net revenue. Overall, general and administrative expenses increased \$62.4 million, or 139.7%, to \$107.1 million for the year ended December 31, 2007 compared to \$44.7 million for the year ended December 31, 2006. General and administrative expenses for Radiologix were \$61.2 million and \$7.4 million for the years ended December 31, 2007 and 2006, respectively. General and administrative expenses excluding Radiologix increased \$8.8 million for the year ended December 31, 2007 when compared to the same period last year. The increase is in line with our increase in procedure volumes at both existing centers as well as new centers. Also in this increase are increased expenditures for accounting fees associated with our efforts towards compliance with the Sarbanes-Oxley Act of 2002, as well as a \$172,000 increase to accrued medical insurance and a \$120,000 increase to accrued legal settlements.

o NASDAQ ONE-TIME LISTING FEE

During the year ended December 31, 2007, we recorded \$120,000 for fees associated with listing our common stock with NASDAQ.

o DEPRECIATION AND AMORTIZATION

Depreciation and amortization increased \$25.8 million, or 131.7%, to \$45.3 million for the year ended December 31, 2007 compared to \$19.5 million for the year ended December 31, 2006. Depreciation and amortization expense for Radiologix was \$24.8 million and \$3.0 million for the years ended December 31, 2007 and 2006, respectively. Depreciation and amortization expense excluding Radiologix increased \$3.9 million for the year ended December 31, 2007 when compared to the same period last year primarily due to property and equipment additions, as well as the acceleration of the amortization of leasehold improvements related to our vacated San Francisco, Rancho Bernardo and San Gabriel facilities of approximately \$716,000, as well as \$743,000 related to adjustments to our in-service dates in our fixed asset system.

o PROVISION FOR BAD DEBTS

Provision for bad debts increased \$16.8 million, or 156.5%, to \$27.5 million, or 6.3% of net revenue, for the year ended December 31, 2007 compared to \$10.7 million, or 5.6% of net revenue, for the year ended December 31, 2006. Provision for bad debts for Radiologix was \$21.2 million and \$2.7 million, and was 8.0% and 8.8 % of net revenue, for the years ended December 31, 2007 and 2006, respectively. Historically, Radiologix has experienced higher bad debts/expense as compared to our business pre-acquisition due to the higher concentration of business associated with hospital payers in the markets that Radiologix serves

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

and the poor collection percentages that are inherent with hospital business. Provision for bad debts excluding Radiologix was \$6.3 million and \$8.0 million for the years ended December 31, 2007 and 2006, respectively.

INTEREST EXPENSE

Interest expense for the year ended December 31, 2007 increased approximately \$21.3 million, or 92.5%, to \$44.3 million compared to \$23.0 million for the year ended December 31, 2006. The increase was primarily due to the increased indebtedness of \$214 million incurred upon the acquisition of Radiologix as well as an addition to our first lien Term Loan B of \$25 million in August 2007. Also included is the amortization of our deferred finance costs

41

associated with this new financing which was approximately \$1.6 million for the year ended December 31, 2007 as well as realized losses on our fair value hedges of \$820,000 for the year ended December 31, 2007.

GAIN ON SALE OF JOINT VENTURE INTERESTS

During the year ended December 31, 2007, we recorded a gain of \$1.9 million from the sale of part of our interest in a joint venture acquired from our acquisition of Radiologix (see Acquisitions and Divestitures above).

INCOME TAX EXPENSE

For the year ended December 31, 2007, we recognized \$337,000 in income tax expense related to certain state tax obligations of Radiologix.

MINORITY INTEREST IN INCOME OF SUBSIDIARIES

For the year ended December 31, 2007, we recognized \$600,000 in minority interest in income of our consolidated joint ventures.

EQUITY IN EARNINGS FROM UNCONSOLIDATED JOINT VENTURES

For the year ended December 31, 2007, we recognized equity in earnings from unconsolidated joint ventures of \$4.1 million.

TWO MONTHS ENDED DECEMBER 31, 2006 COMPARED TO THE TWO MONTHS ENDED DECEMBER 31, 2005 (UNAUDITED)

During the two months ended December 31, 2006, we completed our acquisition of Radiologix. The results of Radiologix and its wholly owned subsidiaries have been included in our consolidated financial statements from the date of acquisition, November 15, 2006, which is the primary reason for the increase noted below.

NET REVENUE

Net revenue from continuing operations for the two months ended December 31, 2006 was \$57.4 million compared to \$25.5 million for the two months ended December 31, 2005, an increase of \$31.9 million, or 125.1%. Net revenue from the acquisition of Radiologix, effective November 15, 2006, was \$30.5 million, and net revenue from five new centers added during calendar 2006 (net of two closed centers) was \$1.4 million. On the other hand, our same store net revenue decreased \$405,000 when compared to the same period in 2005. The decrease was primarily the result of our Beverly Hills locations in which net revenue decreased \$514,000 when compared to the same period in 2005 due to

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

increased competition in the area.

OPERATING EXPENSES

Operating expenses from continuing operations for the two months ended December 31, 2006 increased approximately \$33.4 million, or 146.4%, from \$22.6 million for the two months ended December 31, 2005 to \$56.0 million for the two months ended December 31, 2006. The following table sets forth our operating expenses for the two months ended December 31, 2005 and 2006 (dollars in thousands):

	TWO MONTHS ENDED DECEMBER 31,	
	2006	2005
		(unaudited)
Salaries and professional reading fees	\$ 25,382	\$ 11,880
Building and equipment rental	6,112	1,388
General administrative expenses	14,539	5,881
	-----	-----
Operating expenses	46,033	19,149
Depreciation and amortization	5,907	2,759
Provision for bad debts	3,907	826
Gain on sale of equipment, net	(38)	--
Severance costs	205	--
	-----	-----
Total operating expenses	\$ 56,014	\$ 22,734
	=====	=====

42

o SALARIES AND PROFESSIONAL READING FEES

Salaries and professional reading fees increased \$13.5 million, or 340.3%, from the two months ended December 31, 2005 to the two months ended December 31, 2006. During the two months ended December 31, 2006, salaries and professional reading fees were \$11.2 million and \$0.6 million for Radiologix and the five new centers opened during calendar 2006 (net of two closed centers), respectively. In addition, salaries for the San Fernando Valley Interventional Radiology and Imaging Center, or SFVIR, were \$27,000 for the two months ended December 31, 2006. The costs were for the preliminary set up of the facility that opened on March 12, 2007. Same store salaries and professional reading fees increased \$0.9 million and \$0.8 million, respectively, for the two months ended December 31, 2006 when compared to the same period last year. The majority of the increases were at the sites of Palm Springs and Palm Desert, Modesto, Orange Imaging, Tarzana Advanced and Ventura due to increases in net revenue, and at corporate and the Beverly Hills facilities due to the hiring or retention of key employees or physicians.

o BUILDING AND EQUIPMENT RENTAL

Building and equipment rental expenses increased \$4.7 million, or 340.3%, to \$6.1 million in the two months ended December 31, 2006 compared to \$1.4 million in the two months ended December 31, 2005. During the two months ended December 31, 2006, building and equipment rental expense was \$4.0 million and \$0.2 million for Radiologix and the

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

five new centers opened during calendar 2006 (net of two closed centers), respectively. In addition, building rent expense for SFVIR was \$39,000 for the two months ended December 31, 2006. Same store building and equipment rental expenses increased \$114,000 and \$347,000, respectively, for the two months ended December 31, 2006 when compared to the same period last year. The increase in building rent was due to normal escalations built into the operating leases, and the increase in equipment rental was primarily due to the increased costs of renting mobile MRI equipment while repairs were being done at our Orange facility.

o 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 at 3.62% of net revenue for the two-month period. Overall, general and administrative expenses increased \$8.7 million, or 147.2%, for the two months ended December 31, 2006 compared to the previous period. During the two months ended December 31, 2006, general and administrative expenses were \$7.4 million and \$450,000 for Radiologix and the five new centers opened during calendar 2006 (net of two closed centers), respectively. In addition, general and administrative expenses for SFVIR were \$26,000 for the two months ended December 31, 2006. Same store general and administrative expenses increased \$0.8 million for the two months ended December 31, 2006 when compared to the same period last year. The increase was primarily due to increased expenditures for accounting fees, costs related to repairs at our Orange facility, and employee and marketing expenditures at year-end.

o DEPRECIATION AND AMORTIZATION

Depreciation and amortization increased by \$3.1 million, or 114.1%, in the two months ended December 31, 2006 when compared to the same period last year. During the two months ended December 31, 2006, depreciation and amortization expense was \$3.0 million and \$0.2 million for Radiologix and the five new centers opened during calendar 2006 (net of two closed centers), respectively. In addition, depreciation and amortization expense for SFVIR was \$34,000 for the two months ended December 31, 2006. Same store depreciation and amortization expense decreased \$7,000 for the two months ended December 31, 2006 when compared to the same period last year. Depreciation from same store property and equipment additions during the two months ended December 31, 2006 was offset by historical property and equipment fully depreciating during the same period.

o PROVISION FOR BAD DEBTS

Provision for bad debts increased \$3.1 million, or 373.0%, in the two months ended December 31, 2006 to \$3.9 million compared to \$826,000 for the two months ended December 31, 2005. During the two months ended December 31, 2006, the provision for bad debts was \$2.7 million and \$0.1 million for Radiologix and the five new centers opened during calendar 2006 (net of two closed centers), respectively. Radiologix's provision for bad debts is higher due to the large number of hospital-based receivables they possess. Same store provision for bad debt expense increased \$0.3 million for the two months ended December 31, 2006 when compared to the same period last year. The increase was primarily due to increased write-offs due to billing issues related to

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

untimely filing, and incomplete or incorrect demographic information collected at the sites.

43

o SEVERANCE COSTS

During the two months ended December 31, 2006, we recorded severance costs for Radiologix of \$205,000 related to the acquisition.

INTEREST EXPENSE

Interest expense for the two months ended December 31, 2006 increased approximately \$2.6 million, or 86.9%, from the same period in 2005. The increase was primarily due to the increased indebtedness of \$360.0 million upon the acquisition of Radiologix.

LOSS (GAIN) ON DEBT EXTINGUISHMENTS, NET

For the two months ended December 31, 2006, we recognized a loss from extinguishments of debt of \$7.2 million. With the acquisition of Radiologix, we paid off existing notes payable and subordinated bond debentures and incurred pre-payment penalties of \$2.3 million, and wrote-off deferred financing costs related to prior debt instruments of \$4.9 million.

OTHER INCOME

For the two months ended December 31, 2006 and 2005, we earned other income of \$51,000 and \$29,000, respectively.

INCOME TAX EXPENSE

For the two months ended December 31, 2006, we recognized \$20,000 in income tax expense related to Radiologix.

MINORITY INTEREST IN (INCOME) LOSS OF SUBSIDIARIES

For the two months ended December 31, 2006, we recognized \$45,000 in minority interest expense related to joint ventures of Radiologix.

EARNINGS FROM MINORITY INVESTMENTS

For the two months ended December 31, 2006, we recognized earnings from minority investments of \$503,000 including \$476,000 from investments of Radiologix and \$27,000 from an investment in a PET center in Palm Desert, California.

RECENT ACCOUNTING PRONOUNCEMENTS

As discussed in Note 2, we adopted the provisions of SFAS 157 as of January 1, 2008 for financial instruments. We are required to adopt the provisions of SFAS 157 for non-financial instruments in 2009 and do not expect this adoption to have a material impact on our consolidated financial statements.

In September 2006, the FASB issued SFAS 157, FAIR VALUE MEASUREMENTS, which defines fair value, establishes a framework for measuring fair value in U.S. generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously

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

concluded in those accounting pronouncements that fair value is the relevant measurement attribute. We adopted the provisions of SFAS 157 as of January 1, 2008 for financial instruments. Although the adoption of SFAS 157 for financial instruments 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 (see Note 2 to our consolidated financial statements). We are required to adopt the provisions of SFAS 157 for non-financial instruments in 2009 and do not expect this adoption to have a material impact on our consolidated financial statements.

In February 2007, the FASB issued SFAS 159, THE FAIR VALUE OPTION FOR FINANCIAL ASSETS AND FINANCIAL LIABILITIES, INCLUDING AN AMENDMENT OF FASB STATEMENT NO. 115, which is effective for fiscal years beginning after November 15, 2007. SFAS 159 permits entities to measure eligible financial assets, financial liabilities and firm commitments at fair value, on an instrument-by-instrument basis, that are otherwise not permitted to be accounted for at fair value under other U.S. generally accepted accounting principles. The fair value measurement election is irrevocable and subsequent changes in fair value must be recorded in earnings. As we have not elected the fair value option allowed for by SFAS 159 for any assets or liabilities that are otherwise not permitted to be accounted for at fair value under other U.S. generally accepted accounting principals, the adoption of SFAS 159 did not have an impact on our consolidated financial statements.

In December 2007, the FASB issued SFAS 141(R), BUSINESS COMBINATIONS and SFAS 160, NONCONTROLLING INTERESTS IN CONSOLIDATED FINANCIAL STATEMENTS. Those standards were intended to improve, simplify, and converge internationally the accounting for business combinations and the reporting of noncontrolling (minority) interests in consolidated financial statements. SFAS 141(R) requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction; establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; requires acquisition related transaction costs to be expensed, and requires the acquirer to disclose to investors and other users all of the information they need to evaluate and understand the nature and financial effect of the business combination. SFAS 141(R) is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. SFAS 141(R) applies prospectively to business combinations for which

44

the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Earlier adoption is prohibited. We have not evaluated the potential impact that SFAS 141(R) will have on our financial statements.

SFAS 160 is designed to improve the relevance, comparability, and transparency of financial information provided to investors by requiring all entities to report minority interests in subsidiaries in the same way as equity in the consolidated financial statements. Moreover, SFAS 160 eliminates the diversity that currently exists in accounting for transactions between an entity and minority interests by requiring they be treated as equity transactions. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. In addition, SFAS 160 shall be applied prospectively as of the beginning of the fiscal year in which it is initially applied, except for the presentation and disclosure requirements. The presentation and disclosure requirements shall be applied retrospectively for all periods presented. We currently do not expect SFAS 160 to have a material impact on our financial statements, however, the effect is largely dependent on potential future transactions which we are currently unable to forecast.

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

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force), the AICPA, and the SEC did not, or are not believed by management to, have a material impact on our present or future consolidated financial statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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.

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. 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 to provide financing for working capital needs post-acquisition. 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. 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 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 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. The additions to RadNet's existing credit facilities are intended to provide capital for near-term opportunities and future expansion.

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,

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

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.

Subsequent to year end 2008, the Company was able to modify two of its three interest rate swaps. The modifications extended the maturity of, and re-priced two existing interest rate hedges originally executed in 2006 for an additional 36 months, resulting in an annualized cash interest expense savings of \$2.9 million. On one of the LIBOR hedge modifications for a notional amount of \$107 million of LIBOR exposure, the Company on January 29, 2009 replaced a fixed LIBOR rate of 5.02% with a new rate of 3.47% maturing on November 15, 2012. On the second LIBOR hedge modification for a notional amount of \$90 million of LIBOR exposure, the Company on February 5, 2009 replaced a fixed LIBOR rate of 5.03% with a new rate of 3.61% also maturing on November 15, 2012.

45

In addition, our credit facility, classified as a long-term liability on our financial statements, is interest expense sensitive to changes in the general level of interest because it is based upon the current prime rate plus a factor.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Financial Statements are attached hereto and begin on page 47.

46

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of RadNet, Inc.

We have audited the accompanying consolidated balance sheets of RadNet, Inc. and subsidiaries (the "Company" or "RadNet") as of December 31, 2008 and 2007, and the related consolidated statements of operations, stockholders' deficit, and cash flows for the years then ended. Our audit also includes the financial statement schedule listed in the index at Item 15(b) for the years ended December 31, 2008 and 2007. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in

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

all material respects, the consolidated financial position of RadNet, Inc. and subsidiaries at December 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule for the years ended December 31, 2008 and 2007, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), RadNet's internal control over financial reporting as of December 31, 2008, based on criteria established in INTERNAL CONTROL-INTEGRATED FRAMEWORK issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 16, 2009, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Los Angeles, California
March 16, 2009

<

47

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
RadNet, Inc.

We have audited the accompanying consolidated statements of operations, stockholders' deficit and cash flows of RadNet, Inc. and subsidiaries (the "Company") for the two month period ended December 31, 2006 and for the year ended October 31, 2006. Our audits also included the financial statement schedule listed in the Index at Item 15(b). These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present

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

fairly, in all material respects, the consolidated results of their operations and their cash flows of RadNet, Inc. and subsidiaries for the two month period ended December 31, 2006 and for the year ended October 31, 2006, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ Moss Adams LLP

Los Angeles, California
April 17, 2007

48

RADNET, INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS (IN THOUSANDS EXCEPT SHARE DATA)		DECEMBER 31, 2008	DECEMBER 2007
		-----	-----
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		\$ --	\$ --
Accounts receivable, net		96,097	87,000
Refundable income taxes		103	103
Prepaid expenses and other current assets		12,370	12,370
		-----	-----
Total current assets		108,570	99,843
PROPERTY AND EQUIPMENT, NET			
		193,104	167,000
OTHER ASSETS			
Goodwill		105,278	87,000
Other intangible assets		56,861	56,861
Deferred financing costs, net		10,907	10,907
Investment in joint ventures		17,100	17,100
Deposits and other		3,752	3,752
		-----	-----
Total other assets		193,898	175,620
		-----	-----
Total assets		\$ 495,572	\$ 432,263
		=====	=====
LIABILITIES AND STOCKHOLDERS' DEFICIT			
CURRENT LIABILITIES			
Accounts payable and accrued expenses		\$ 83,676	\$ 83,676
Due to affiliates		1,977	1,977
Notes payable		5,501	5,501
Current portion of deferred rent		390	390
Obligations under capital leases		15,064	15,064
		-----	-----
Total current liabilities		106,608	106,608
		-----	-----
LONG-TERM LIABILITIES			
Line of credit		1,742	1,742
Deferred rent, net of current portion		7,996	7,996
Deferred taxes		277	277
Notes payable, net of current portion		419,735	386,000

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

Obligations under capital lease, net of current portion	24,238	2
Other non-current liabilities	16,006	1
	-----	-----
Total long-term liabilities	469,994	42
	-----	-----
COMMITMENTS AND CONTINGENCIES		
MINORITY INTERESTS	78	
STOCKHOLDERS' DEFICIT		
Common stock - \$.0001 par value, 200,000,000 shares authorized; 35,911,474 and 35,239,558 shares issued and outstanding at December 31, 2008 and 2007, respectively	4	
Paid-in-capital	153,006	14
Accumulated other comprehensive loss	(6,396)	(
Accumulated deficit	(227,722)	(21
	-----	-----
Total stockholders' deficit	(81,108)	(6
	-----	-----
Total liabilities and stockholders' deficit	\$ 495,572	\$ 43
	=====	=====

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

49

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

	YEARS ENDED DECEMBER 31,		TWO MONTHS DECEMBER
	2008	2007	2006
	-----	-----	-----
NET REVENUE	\$ 502,118	\$ 425,470	\$ 57
OPERATING EXPENSES			
Operating expenses	384,297	330,550	46
Depreciation and amortization	53,548	45,281	5
Provision for bad debts	30,832	27,467	3
Loss (gain) on sale of equipment	516	72	
Severance costs	335	934	
	-----	-----	-----
Total operating expenses	469,528	404,304	56
	-----	-----	-----
INCOME FROM OPERATIONS	32,590	21,166	1
OTHER EXPENSES (INCOME)			
Interest expense	51,811	44,307	5
Gain from sale of joint venture interest	--	(1,868)	
Loss on debt extinguishment, net	--	--	7
Other (income) expense	(151)	(29)	
	-----	-----	-----
Total other expense	51,660	42,410	12
	-----	-----	-----
LOSS BEFORE INCOME TAXES, MINORITY			

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

INTERESTS AND EARNINGS FROM			
MINORITY INVESTMENTS	(19,070)	(21,244)	(11)
Provision for income taxes	(151)	(337)	
Minority interest in income of subsidiaries	(103)	(600)	
Equity in earnings of joint ventures	6,488	4,050	
	-----	-----	-----
NET LOSS	\$ (12,836)	\$ (18,131)	\$ (10)
	=====	=====	=====
BASIC AND DILUTED NET LOSS PER SHARE	\$ (0.36)	\$ (0.52)	\$ (
WEIGHTED AVERAGE SHARES OUTSTANDING			
Basic and diluted	35,721,028	34,592,716	30,972

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

50

RADNET, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
(IN THOUSANDS EXCEPT SHARE DATA)

	Common Stock		Paid-in Capital
	Shares	Amount	
	-----	-----	-----
BALANCE - OCTOBER 31, 2005	21,615,906	\$ 2	\$ 101,021
Issuance of warrant	1,290,062	--	1,451
Issuance of common stock upon exercise of options/warrants	56,084		156
Conversion of bonds	23,200	--	116
Share-based compensation	--	--	459
Net loss	--	--	--
Comprehensive loss			
	-----	-----	-----
BALANCE - OCTOBER 31, 2006	22,985,252	\$ 2	\$ 103,203
Issuance of common stock to shareholders of Radiologix	11,310,950	1	39,399
Issuance of common stock upon conversion of bonds	674,600	--	3,373
Issuance of common stock upon exercise of options/warrants	3,125	--	3
Stock split partial shares	(147)	--	--
Share-based compensation	--	--	78
Unrealized loss on the change in fair value of cash flow hedging	--	--	--
Net loss	--	--	--
Comprehensive loss			
	-----	-----	-----
BALANCE - DECEMBER 31, 2006	34,973,780	\$ 3	\$ 146,056
Cumulative effect adjustment pursuant to adoption of SAB No. 108	--	--	--
Issuance of common stock upon exercise of options/warrants	1,178,278	1	957
Retirement of treasury shares	(912,500)	--	(695)
Share-based compensation	--	--	3,313

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

Change in fair value of cash flow hedge	--	--	--
Net loss	--	--	--
Comprehensive loss			
BALANCE - DECEMBER 31, 2007	35,239,558	\$ 4	\$ 149,631
Issuance of common stock upon exercise of options/warrants	671,916	--	473
Share-based compensation	--	--	2,902
Change in fair value of cash flow hedge	--	--	--
Net loss	--	--	--
Comprehensive loss			
BALANCE - DECEMBER 31, 2008	35,911,474	\$ 4	\$ 153,006

51a

[table continued on next page]

[table continued from previous page]

	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Deficit
	-----	-----	-----
BALANCE - OCTOBER 31, 2005	\$ (174,410)	\$ --	\$ (74,082)
Issuance of warrant	--	--	1,451
Issuance of common stock upon exercise of options/warrants	--	--	156
Conversion of bonds	--	--	116
Share-based compensation	--	--	459
Net loss	(6,894)	--	(6,894)
Comprehensive loss			(6,894)
BALANCE - OCTOBER 31, 2006	\$ (181,304)	\$ --	\$ (78,794)
Issuance of common stock to shareholders of Radiologix	--	--	39,400
Issuance of common stock upon conversion of bonds	--	--	3,373
Issuance of common stock upon exercise of options/warrants	--	--	3
Stock split partial shares	--	--	--
Share-based compensation	--	--	78
Unrealized loss on the change in fair value of cash flow hedging	--	(73)	(73)
Net loss	(10,983)	--	(10,983)
Comprehensive loss			(11,056)
BALANCE - DECEMBER 31, 2006	\$ (192,287)	\$ (73)	\$ (46,996)
Cumulative effect adjustment pursuant to adoption of SAB No. 108	(4,468)	--	(4,468)

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

Issuance of common stock upon exercise of options/warrants	--	--	958
Retirement of treasury shares	--	--	--
Share-based compensation	--	--	3,313
Change in fair value of cash flow hedge	--	(4,506)	(4,506)
Net loss	(18,131)	--	(18,131)
Comprehensive loss			(22,637)
BALANCE - DECEMBER 31, 2007	\$ (214,886)	\$ (4,579)	\$ (69,830)
Issuance of common stock upon exercise of options/warrants	--	--	473
Share-based compensation	--	--	2,902
Change in fair value of cash flow hedge	--	(1,817)	(1,817)
Net loss	(12,836)	--	(12,836)
Comprehensive loss			(14,653)
BALANCE - DECEMBER 31, 2008	\$ (227,722)	\$ (6,396)	\$ (81,108)

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

51b

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

	YEARS ENDED DECEMBER 31,	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (12,836)	\$ (18,131)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	53,548	45,281
Provision for bad debts	30,832	27,467
Minority interest in income of subsidiaries	103	600
Distributions to minority interests	(231)	(1,219)
Equity in earnings of joint ventures	(6,488)	(4,050)
Distributions from joint ventures	5,216	4,570
Deferred rent amortization	3,514	1,037
Deferred financing cost interest expense	2,567	1,632
Net loss (gain) on disposal of assets	516	72
Gain from sale of joint venture interest	--	(1,868)
Loss (gain) on extinguishment of debt	(47)	--
Accrued interest expense and interest related to swap	3,674	2,959
Refinancing fees and pre-payment penalties	--	--
Share-based compensation	2,902	3,313
Amortization of tenant improvements and other contracts	--	--
Changes in operating assets and liabilities, net of assets acquired and liabilities assumed in purchase transactions:		
Accounts receivable	(36,297)	(42,923)
Other current assets	(1,515)	4,396

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

Other assets	684	588
Accounts payable and accrued expenses	(941)	5,477
	-----	-----
Net cash provided by operating activities	45,201	29,201
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of imaging facilities	(28,859)	(18,465)
Purchase of property and equipment	(29,199)	(27,207)
Purchase of Radiologix, net of cash acquired	--	(370)
Proceeds from sale of equipment	2,961	845
Proceeds from sale of joint venture interest	--	2,260
Purchase of equity interest in joint ventures	(938)	(4,413)
Proceeds from the divestiture of imaging centers	--	1,625
Purchase of covenant not to compete contract	--	(250)
Payments collected on notes receivable	--	111
	-----	-----
Net cash provided (used) by investing activities	(56,035)	(45,864)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash disbursements in transit	--	(5,099)
Principal payments on notes and leases payable	(19,112)	(10,398)
Repayment of debt upon extinguishments	--	--
Proceeds from borrowings upon refinancing	1,212	--
Proceeds from borrowings on notes payable	35,000	33,137
Proceeds from borrowings from line of credit	--	--
Deferred financing costs	(4,277)	(1,351)
Payments on notes to related party	--	--
Payments on line of credit	(2,480)	(3,787)
Proceeds from issuance of common stock	473	958
	-----	-----
Net cash provided (used) by financing activities	10,816	13,460
	-----	-----
NET INCREASE (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	\$ 49,236	\$ 41,382
Cash paid during the period for income taxes	\$ 389	\$ 186

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

52

RADNET, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES

We entered into capital leases and equipment notes for approximately \$23.7 million, \$19.6 million, \$6.0 million and \$4.0 million for the years ended December 31, 2008 and 2007, the two months ended December 31, 2006 and the year ended October 31, 2006, respectively. We also acquired capital equipment for approximately \$17.8 million and \$4.4 million during the years ended December 31 2008 and 2007 that we had not paid for as of December 31, 2008 and 2007,

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

respectively. The offsetting amount due was recorded in our consolidated balance sheets under accounts payable and accrued expenses.

We record the change in fair value of our interest rate swaps that are designated as cash flow hedges to accumulated other comprehensive loss. During the years ended December 31, 2008 and 2007 and the two months ended December 31, 2006, we recorded unrealized losses of \$1.8 million, \$4.5 million and 73,000, respectively, to accumulated other comprehensive loss for the change in fair value in these respective periods.

Detail of non-cash investing and financing activity related to acquisitions can be found in Notes 3 and 4.

53

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 in New York. On September 3, 2008, we reincorporated in the state of Delaware. We operate a group of regional networks comprised of 165 diagnostic imaging facilities located in six states with operations primarily in California, Maryland, the Treasure Coast area of Florida, Kansas, Delaware 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 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. (sold in 2008), 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 18% 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 the majority 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. 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

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

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, per the management agreement. Through the management agreement and our relationship with Dr. Berger, we have exclusive authority over all non-medical decision making related to the ongoing business operations of BRMG. Based on the provisions of the agreement, we have determined that BRMG is a variable interest entity, and that we are the primary beneficiary as defined in Financial Accounting Standards Board (FASB) Interpretation No. 46 (revised December 2003), CONSOLIDATION OF VARIABLE INTEREST ENTITIES, AN INTERPRETATION OF ARB NO. 51 (FIN 46(R)), and consequently, we consolidate the revenue and expenses of BRMG. All intercompany balances and transactions have been eliminated in consolidation.

At a portion of our centers in California and at all of the centers which are located outside of California, we have entered into long-term contracts with independent radiology groups in the area to provide physician services at those facilities. These third party radiology practices provide professional services, including supervision and interpretation of diagnostic imaging procedures, in our diagnostic imaging centers. The radiology practices maintain full control over the provision of professional services. 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 \$31.8 and \$31.2 for the years ended December 31, 2008 and 2007, respectively. We have no financial controlling interest in the independent radiology practices, as defined in EITF 97-2; accordingly, we do not consolidate the financial statements of those practices in our consolidated financial statements.

LIQUIDITY AND CAPITAL RESOURCES

We had a working capital balance of \$2.0 million and \$23.2 million at December 31, 2008 and 2007, respectively. We had net losses of \$12.8 million, \$18.1 million, \$11.0 million and \$6.9 million for the years ended December 31, 2008 and 2007, the two months ended December 31, 2006, and the year ended October 31, 2006, respectively. We also had a stockholders' deficit of \$81.1 million and \$69.8 million at December 31, 2008 and 2007, respectively.

We operate in a capital intensive, high fixed-cost industry that requires significant amounts of capital to fund operations. In addition to operations, we require a significant amount of capital for the initial start-up and development 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.

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

Our business strategy with regard to operations focuses on the following:

- |X| Maximizing performance at our existing facilities;
- |X| Focusing on profitable contracting;
- |X| Expanding MRI, CT and PET applications;
- |X| Optimizing operating efficiencies; and
- |X| 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 a material drop in LIBOR 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.

Subsequent to year end 2008, the Company was able to modify two of its three interest rate swaps. The modifications extended the maturity of, and re-priced two existing interest rate hedges originally executed in 2006 for an additional 36 months, resulting in an annualized cash interest expense savings of \$2.9 million. On one of the LIBOR hedge modifications for a notional amount of \$107 million of LIBOR exposure, the Company on January 29, 2009 replaced a fixed LIBOR rate of 5.02% with a new rate of 3.47% maturing on November 15, 2012. On the second LIBOR hedge modification for a notional amount of \$90 million of LIBOR exposure, the Company on February 5, 2009 replaced a fixed LIBOR rate of 5.03% with a new rate of 3.61% also maturing on November 15, 2012.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION - The operating activities of subsidiaries are included in the accompanying consolidated financial statements from the date of acquisition. Investments in companies in which the Company has the ability to exercise significant influence, but not control, are accounted for by the equity method. All intercompany transactions and balances have been eliminated in consolidation.

USE OF ESTIMATES - The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. These estimates and assumptions affect various matters, including our reported amounts of assets and liabilities in our consolidated balance sheets at the dates of the financial statements; our

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

disclosure of contingent assets and liabilities at the dates of the financial statements; and our reported amounts of revenues and expenses in our consolidated statements of operations during the reporting periods. These estimates involve judgments with respect to numerous factors that are difficult to predict and are beyond management's control. As a result, actual amounts could materially differ from these estimates.

REVENUE RECOGNITION - Our consolidated net revenue consists of net patient fee for service revenue and revenue from capitation arrangements, or capitation revenue. Net patient service revenue is recognized at the time services are provided net of contractual adjustments based on our evaluation of expected collections resulting from the analysis of current and past due accounts, past collection experience in relation to amounts billed and other relevant information. The amount of expected collection is continually adjusted as more information is received and such adjustments are recorded in current operations. Contractual adjustments result from the differences between the rates charged for services performed and reimbursements by government-sponsored healthcare programs and insurance companies for such services. Capitation revenue is recognized as revenue during the period in which we were obligated to provide services to plan enrollees under contracts with various health plans. Under these contracts, we receive a per-enrollee amount each month covering all contracted services needed by the plan enrollees. Net revenue is reduced by the provision for bad debts.

55

CONCENTRATION OF CREDIT RISKS - Financial instruments that potentially subject us to credit risk are primarily cash equivalents and accounts receivable. We have placed our cash and cash equivalents with one major financial institution. At times, the cash in the financial institution is temporarily in excess of the amount insured by the Federal Deposit Insurance Corporation, or FDIC. Substantially all of our accounts receivable are due under fee-for-service contracts from third party payors, such as insurance companies and government-sponsored healthcare programs, or directly from patients. Services are generally provided pursuant to one-year contracts with healthcare providers. Receivables generally are collected within industry norms for third-party payors. We continuously monitor collections from our clients and maintain an allowance for bad debts based upon any specific payor collection issues that we have identified and our historical experience. As of December 31, 2008 and 2007, our allowance for bad debts was \$12.1 million and \$11.6 million, respectively.

CASH AND CASH EQUIVALENTS - We consider all highly liquid investments purchased that mature in three months or less when purchased to be cash equivalents. The carrying amount of cash and cash equivalents approximates their fair market value.

DEFERRED FINANCING COSTS - Costs of financing are deferred and amortized on a straight-line basis over the life of the loan.

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, whichever is lower, which range from 3 to 30 years. Only a few leasehold improvements are deemed to have a life greater than 15 to 20 years. Maintenance and repairs are charged to expenses as incurred.

GOODWILL - Goodwill at December 31, 2008 totaled \$105.3 million.

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

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 in accordance with Statement of Financial Accounting Standards, or SFAS, No. 142, "Goodwill and Other Intangible Assets." Impairment of goodwill is tested at the reporting unit level by comparing the reporting unit's carrying amount, including goodwill, to the fair value of the reporting unit. The fair value of a reporting unit is estimated using a combination of the income or discounted cash flows approach and the market approach, which uses comparable market data. If the carrying amount of the reporting unit exceeds its fair value, goodwill is considered impaired and a second step is performed to measure the amount of impairment loss, if any. We tested goodwill on October 1, 2008. Based on our review, we noted no impairment related to goodwill as of October 1, 2008. However, if estimates or the related assumptions change in the future, we may be required to record impairment charges to reduce the carrying amount of goodwill.

LONG-LIVED ASSETS - We evaluate our long-lived assets (property and equipment) and definite-lived intangibles for impairment whenever indicators of impairment exist. The accounting standards require that if the sum of the undiscounted expected future cash flows from a long-lived asset or definite-lived intangible is less than the carrying value of that asset, an asset impairment charge must be recognized. The amount of the impairment charge is calculated as the excess of the asset's carrying value over its fair value, which generally represents the discounted future cash flows from that asset or in the case of assets we expect to sell, at fair value less costs to sell. No indicators of impairment were identified with respect to our long-lived assets as of December 31, 2008.

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. Income taxes are further explained in Note 10.

UNINSURED RISKS - Prior to November 1, 2006 the Company maintained a high deductible self-insured workers' compensation insurance program. The liability is based on the Company's estimate of losses for claims incurred but unpaid. Funding is made directly to the providers and/or claimants through a third party administrator. To guarantee performance under the workers' compensation program, the Company has maintained a cash collateral account with the administrator. The cash collateral account is restricted as security for potential claims. The Company has recorded restricted cash of approximately \$1.3 million and \$1.3 million as of December 31, 2008 and December 31, 2007, respectively. These amounts are included in the other current assets balance sheet line item. At December 31, 2008 and December 31, 2007 the Company has recorded a reserve of approximately \$973,000 and \$1.4 million, respectively, for potential losses on existing claims as such amounts are believed to be probable and reasonably estimable.

For the subsequent two years that ended October 31, 2008, the Company pre-funded the anticipated claims' losses as well as the policy and claim handling costs. The total loss reserves reported as of January 2009 for the two years ended October 31, 2008 was \$1.26 million and the company has paid \$2.15 million to the administrator. Thus, unless the incurred losses increase by more than \$900,000, the Company will not have any uninsured risks for those periods. The Company does not anticipate that the loss development will exceed our reserve.

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

On November 1, 2008 the Company obtained a fully funded and insured workers' compensation policy, thereby eliminating any uninsured risks for injuries occurring on or after that date.

We and our affiliated physicians are insured by Fairway Physicians Insurance Company. Fairway provides claims-made medical malpractice insurance coverage that covers only asserted medical malpractice claims during the year that fall within policy limits. We accrued a liability of \$1.7 million as of

56

December 31, 2007 for our exposure to incurred but unreported claims. In December 2008, to remove the exposure to unreported claims, the Company purchased a medical malpractice tail policy, which provides coverage for any future claims reported that were incurred during previous periods. Therefore, as of December 31, 2008 the Company no longer requires an accrued liability for future claims. The \$960,000 cost of the policy versus the reversal of the previous accrual of \$1.7 million resulted in a \$700,000 reduction in the Company's malpractice insurance costs in 2008. We currently hold a \$300,000 asset for the cost basis of our investment in the common stock we hold in Fairway Physicians Insurance Company, the risk retention group that holds our medical malpractice policy.

On January 1, 2008 the Company entered into an arrangement with Blue Shield to administer and process the claims for the Company's new self-insured health insurance plan that provides coverage for its employees and dependents. We have recorded a \$1.7 million liability as of December 31, 2008 for claims incurred in 2008 by its participants, but were not paid by December 31, 2008. Additionally, the Company entered into an agreement with Sun Life Assurance Company to provide a stop loss policy that provides coverage for any claims in excess of \$150,000 up to a maximum of \$1.0 million in order to limit its exposure for unusual or catastrophic claims.

LOSS CONTRACTS - We assess the profitability of our contracts to provide management services to our contracted physician groups and identify those contracts where current operating results or forecasts indicate probable future losses. Anticipated future revenue is compared to anticipated costs. If the anticipated future costs exceeds the revenue, a loss contract accrual is recorded. In connection with the acquisition of Radiologix in November 2006, we acquired certain management service agreements for which forecasted costs exceeds forecasted revenue. As such, an \$8.9 million loss contract accrual was established in purchase accounting, and is included in other non-current liabilities. The recorded loss contract accrual is being accreted into operations over the remaining term of the acquired management service agreements. As of December 31, 2008 and 2007, the remaining accrual balance is \$8.8 million, and \$8.5 million, respectively.

EQUITY BASED COMPENSATION - We have three long-term incentive plans. We have not issued options under the 1992 plan since the adoption 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 two to five years and expire five to ten years from date of grant.

The compensation expense recognized for all equity-based awards is net

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

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 within operating expenses with the same line item as the majority of the cash compensation paid to employees

SEGMENTS OF AN ENTERPRISE - The Company reports segment information in accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131"). Under SFAS 131 all publicly traded companies are required to report certain information about the operating segments, products, services and geographical areas in which they operate and their major customers. The Company operates in a single business segment and operates only in the United States.

DERIVATIVE FINANCIAL INSTRUMENTS - The Company holds derivative financial instruments for the purpose of hedging the risks of certain identifiable and anticipated transactions. In general, the types of risks hedged are those relating to the variability of cash flows caused by movements in interest rates. 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' Deficit. The remaining gain or loss, if any, is recognized currently in earnings. Amounts in accumulated other comprehensive income are reclassified into income in the same period in which the hedged forecasted transaction affects earnings.

COMPREHENSIVE INCOME - SFAS No. 130 REPORTING COMPREHENSIVE INCOME establishes rules for reporting and displaying comprehensive income and its components. SFAS No. 130 requires unrealized gains or losses on the change in fair value of the Company's cash flow hedging activities to be included in comprehensive income. The components of comprehensive loss are included in the Consolidated Statement of Stockholders Deficit.

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 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.

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.

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

Our consolidated balance sheets include the following financial instruments: cash and cash equivalents, receivables, trade accounts payable, capital leases, long-term debt and other liabilities. We consider the carrying amounts of cash and cash equivalents, receivables, other current assets and current liabilities to approximate their fair value because of the relatively short period of time between the origination of these instruments and their expected realization or payment. Additionally, we consider the carrying amount of our capital lease obligations to approximate their fair value because the weighted average interest rate used to formulate the carrying amounts approximates current market rates.

At December 31, 2008, based on Level 2 inputs, we determined the fair values of our first and second lien term loans issued on November 15, 2006 and extended on August 23, 2007 (see Note 9) to be \$196.1million and \$127.5million, respectively. The carrying amount of the first and second lien term loans at December 31, 2008 was \$245.1 million and \$170.0 million, respectively.

The Company maintains interest rate swaps which are required to be recorded at fair value on a recurring basis. At December 31, 2008 the fair value of these swaps of \$7.2 million 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, which would be the input used in the valuations. The forward LIBOR curve is readily available in the public markets or can be derived from information available in the public markets. We have included \$822,000 of this fair value in accounts payable and accrued expenses and the remaining in other non-current liabilities.

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):

	YEARS ENDED DECEMBER 31,	
	2008	2007
Net loss	\$ (12,836)	\$ (18,131)
BASIC LOSS PER SHARE		
Weighted average number of common shares outstanding during the year	35,721,028	34,592,716
Basic loss per share:		
Basic loss per share	\$ (0.36)	\$ (0.52)
DILUTED LOSS PER SHARE		
Weighted average number of common shares outstanding during the year	35,721,028	34,592,716
Add additional shares issuable upon exercise of stock options and warrants	--	--
Weighted average number of common shares used in calculating diluted loss per share	35,721,028	34,592,716

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

Diluted loss per share:	\$ (0.36)	\$ (0.52)
Diluted loss per share	-----	-----

For all periods presented we excluded all options and warrants in the calculation of diluted earnings per share because their effect would be antidilutive. However, these instruments could potentially dilute earnings per share in future years.

INVESTMENT IN JOINT VENTURES - We have eight 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 \$2.1 million to \$17.1 million at December 31, 2008 compared to \$15.0 million at December 31, 2007. This increase is primarily related to our purchase of an additional \$938,000 of share holdings in joint ventures that were existing as of

58

December 31, 2007 as well as our equity earnings of \$6.5 million for the year ended December 31, 2008, offset by \$5.2 of distributions received during the period.

We received management service fees from the centers underlying these joint ventures of approximately \$7.6 million, \$5.0 million and \$456,000 for the years ended December 31, 2008 and 2007, and the two months ended December 31, 2006, respectively.

The following table is a summary of key financial data for these joint ventures as of and for the years ended December 31, 2008 and 2007, respectively (in thousands):

	DECEMBER 31, 2008
Balance Sheet Data:	-----
Current assets	\$ 20,732
Noncurrent assets	23,557
Current liabilities	(4,634)
Noncurrent liabilities	(7,848)

Total net assets	\$ 31,807
	=====
Book value of Radnet joint venture interests	\$ 13,717
Cost in excess of book value of acquired joint venture interests	3,383

Total value of Radnet joint venture interests	\$ 17,100
	=====
Total book value of other joint venture partner interests	\$ 18,090
	=====

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

Net revenue	\$ 80,948
Net income	\$ 17,758

NOTE 3 - FACILITY ACQUISITIONS AND DIVESTITURES

ACQUISITIONS

On October 31, 2008, we acquired the assets and business of Middletown Imaging in Middletown, Delaware for \$210,000 in cash and the assumption of capital lease debt of \$1.2 million. We made a preliminary purchase price allocation of the acquired assets and liabilities, and approximately \$530,000 of goodwill was recorded with respect to this transaction.

On August 15, 2008, we acquired the women's imaging practice of Parvis Gamagami, M.D., Inc. in Van Nuys, CA for \$600,000. Upon acquisition, we relocated the practice to a nearby center we recently acquired from InSight Health in Encino, CA. We rebranded the InSight center as the Encino Breast Care Center, and focused it on Digital Mammography, Ultrasound, MRI and other modalities pertaining to women's health. We have allocated the full purchase price of \$600,000 to goodwill.

On July 23, 2008, we acquired 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. We made a preliminary purchase price allocation of the acquired assets and liabilities, and approximately \$2.6 million of goodwill was recorded with respect to this transaction.

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 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 made a preliminary purchase price allocation of the acquired assets and liabilities, and approximately \$313,000 of goodwill was recorded with respect to this transaction.

59

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 Mammography. We made a preliminary purchase price allocation of the acquired assets and liabilities, and approximately \$5.6 million of goodwill was recorded with respect to this transaction.

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

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

approximately \$4.0 million of accrued liabilities and capital lease obligations. We 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 made a preliminary purchase price allocation of the acquired assets and liabilities, and approximately \$3.6 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 made a preliminary purchase price allocation of the acquired assets and liabilities, and approximately \$5.6 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 \$3.0 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 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

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

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 \$8.9 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 reducing our ownership to 49%. As a result of this transaction, we no longer consolidate this joint venture. Accordingly, our consolidated balance sheet at December 31, 2007

60

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 4 - ACQUISITION OF RADIOLOGIX

On November 15, 2006, we completed our acquisition of Radiologix, Inc. as a stock purchase. Under the terms of the merger agreement, Radiologix shareholders received aggregate consideration of 11,310,950 shares of our common stock and \$42,950,000 in cash.

	(IN THOUSANDS)

Value of stock given by RadNet to Radiologix*	\$39,400
Cash	42,950
Transaction fees and expenses**	15,208

Total purchase price	\$97,558
	=====

(*) Calculated as 11,310,950 shares multiplied by \$3.48 (average closing price of \$3.48 from June 28, 2006 to July 13, 2006).

(**) Includes \$8,274,000 in assumed liabilities of Radiologix, including \$3,210,000 in merger and acquisition fees and \$5,064,000 in Radiologix bond prepayment penalties.

Under the purchase method of accounting, the total purchase price as shown above is allocated to Radiologix's net tangible and intangible assets

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

based on their fair values as of the date of acquisition. The following table summarizes the final purchase price allocation at the date of acquisition.

	(IN THOUSANDS)
Current assets	\$ 114,764
Property and equipment, net	78,644
Identifiable intangible assets	61,000
Goodwill	47,762
Investments in joint ventures	9,482
Other assets	974
Current liabilities	(25,191)
Accrued restructuring charges	(314)
Contracts	(8,994)
Assumption of debt	(177,358)
Long-term liabilities	(2,002)
Minority interests in consolidated subsidiaries	(1,209)

Total purchase price	\$ 97,558
	=====

CASH, MARKETABLE SECURITIES, INVESTMENTS AND OTHER ASSETS: We valued cash, marketable securities, investments and other assets at their respective carrying amounts as we believe that these amounts approximated their current fair values.

IDENTIFIABLE INTANGIBLE ASSETS: Identifiable intangible assets acquired include management service agreements and covenants not to compete. Management service agreements represent the underlying relationships and agreements with certain professional radiology groups. Covenants not to compete are contracts entered into with certain former members of management of Radiologix on the date of acquisition.

Identifiable intangible assets consist of:

(IN THOUSANDS)	ESTIMATED FAIR VALUE	ESTIMATED AMORTIZATION PERIOD	ANNUAL AMORTIZATION
-----	-----	-----	-----
Management service agreements	\$57,880	25 years	\$ 2,315
Covenants not to compete	3,120	1 to 2 years	1,810

61

Estimated useful lives for the intangible assets were based on the average contract terms, which are greater than the amortization period that will be used for management contracts. Intangible assets are being amortized using the straight-line method, considering the pattern in which the economic benefits of the intangible assets are consumed.

GOODWILL: \$47,762,000 has been allocated to goodwill. This is an increase of approximately \$9.3 million from our previous estimate. The increase in goodwill relates to an \$8.0 million decrease to property and equipment, a \$100,000 increase to current assets, a \$277,000 increase to deferred taxes and a

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

\$1.1 million increase to accrued liabilities. Goodwill represents the excess of the purchase price over the fair value of the underlying net tangible and identifiable intangible assets net of liabilities assumed. In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets" goodwill will not be amortized but instead will be tested for impairment at least annually. We performed this test on October 1, 2008. As a result of this test, management determined that the value of goodwill is not impaired. Because this goodwill was established through a stock purchase, no amount is deductible for tax purposes.

OPERATING LEASES: We assumed certain operating leases for both equipment and facilities. All related historical deferred rent liabilities have been eliminated.

NOTE 5 - RECENT ACCOUNTING STANDARDS AND PRONOUNCEMENTS

As discussed in Note 2, we adopted the provisions of SFAS 157 as of January 1, 2008 for financial instruments. We are required to adopt the provisions of SFAS 157 for non-financial instruments in 2009 and do not expect this adoption to have a material impact on our consolidated financial statements.

In February 2007, the FASB issued SFAS 159, THE FAIR VALUE OPTION FOR FINANCIAL ASSETS AND FINANCIAL LIABILITIES, INCLUDING AN AMENDMENT OF FASB STATEMENT NO. 115, which is effective for fiscal years beginning after November 15, 2007. SFAS 159 permits entities to measure eligible financial assets, financial liabilities and firm commitments at fair value, on an instrument-by-instrument basis, that are otherwise not permitted to be accounted for at fair value under other U.S. generally accepted accounting principles. The fair value measurement election is irrevocable and subsequent changes in fair value must be recorded in earnings. The adoption of SFAS 159 did not have a material impact on our consolidated financial statements. As we have not elected the fair value option allowed for by SFAS 159 for any assets or liabilities that are otherwise not permitted to be accounted for at fair value under other U.S. generally accepted accounting principals, the adoption of SFAS 159 did not have an impact on our consolidated financial statements.

In December 2007, the FASB issued SFAS 141(R), BUSINESS COMBINATIONS and SFAS 160, NONCONTROLLING INTERESTS IN CONSOLIDATED FINANCIAL STATEMENTS. Those standards were intended to improve, simplify, and converge internationally the accounting for business combinations and the reporting of noncontrolling (minority) interests in consolidated financial statements. SFAS 141(R) requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction; establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; requires acquisition related transaction costs to be expensed and requires the acquirer to disclose to investors and other users all of the information they need to evaluate and understand the nature and financial effect of the business combination. SFAS 141(R) is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. SFAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Earlier adoption is prohibited. We have not evaluated the potential impact that SFAS 141(R) will have on our financial statements.

SFAS 160 is designed to improve the relevance, comparability, and transparency of financial information provided to investors by requiring all entities to report minority interests in subsidiaries in the same way as equity in the consolidated financial statements. Moreover, SFAS 160 eliminates the diversity that currently exists in accounting for transactions between an entity and minority interests by requiring they be treated as equity transactions. SFAS

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

160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. In addition, SFAS 160 shall be applied prospectively as of the beginning of the fiscal year in which it is initially applied, except for the presentation and disclosure requirements. The presentation and disclosure requirements shall be applied retrospectively for all periods presented. We currently do not expect SFAS 160 to have a material impact on our financial statements, however, the effect is largely dependent on potential future transactions which we are currently unable to forecast.

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force), the AICPA, and the SEC did not, or are not believed by management to, have a material impact on our present or future consolidated financial statements.

62

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment and accumulated depreciation and amortization are as follows (in thousands):

	DECEMBER 31,	
	2008	2007
Buildings	\$ 2	\$ 602
Medical equipment	173,884	142,423
Office equipment, furniture and fixtures	49,676	42,466
Leasehold improvements	93,573	80,518
Equipment under capital lease	59,543	43,162
	376,678	309,171
Accumulated depreciation and amortization	(183,574)	(145,074)
	\$ 193,104	\$ 164,097

Depreciation and amortization expense on property and equipment, including amortization of equipment under capital leases, for the fiscal years ended December 31, 2008 and 2007, the two months ended December 31, 2006 and the year ended October 31, 2006 was \$49.4 million, \$40.7 million, \$5.4 million and \$16.2 million, respectively.

NOTE 7 - GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill at December 31, 2008 totaled \$105.3 million. Goodwill is recorded as a result of business combinations. Activity in goodwill for the year ended October 31, 2006, the two months ended December 31, 2006, and the years ended December 31, 2007 and 2008 are provided below (in thousands):

Balance as of October 31, 2006 and 2005	
Goodwill acquired through the acquisition of Radiologix	
Balance as of December 31, 2006	

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

Adjustments to our preliminary allocation of the purchase price of Radiologix
 Goodwill acquired through the acquisition of Walnut Creek Open MRI
 Goodwill acquired through the acquisition of Valley Imaging Center, Inc.
 Goodwill acquired through the acquisition of Borge Imaging Group
 Goodwill acquired through the acquisition of Rockville Open MRI
 Goodwill acquired through the acquisition of Liberty Pacific Imaging

Balance as of December 31, 2007

Adjustments to our preliminary allocation of the purchase price of Borge Imaging G
 Adjustments to our preliminary allocation of the purchase price of Valley Imaging
 Goodwill acquired through the acquisition of Rolling Oaks Imaging Group
 Goodwill acquired through the acquisition of Papastavros Associates Medical Imagin
 Goodwill acquired through the acquisition of BreastLink Medical Group, Inc
 Goodwill acquired through the acquisition of InSight Health Corp.
 Goodwill acquired through the acquisition of Simi Valley Advanced Medical
 Goodwill acquired through the acquisition of NeuroSciences Imaging Center
 Goodwill acquired through the acquisition of imaging practice of Parvis Gamagami,
 Goodwill acquired through the acquisition of Middletown Imaging

Balance as of December 31, 2008

Other intangible assets are primarily related to the value of management service agreements obtained through our acquisition of Radiologix and are recorded at cost of \$57.9 million less accumulated amortization of \$4.9 million at December 31, 2008. Also included in other intangible assets is the value of covenant not to compete contracts associated with our recent facility acquisitions (see note 3) totaling \$6.4 million less accumulated amortization of \$3.9 million, as well as the value of trade names associated with acquired imaging facilities totaling \$2.2 million less accumulated amortization of \$791,000. Amortization expense for the year ended December 31, 2008 was \$4.1 million. Intangible assets are amortized using the straight-line method. Management service agreements are amortized over 25 years using the straight line method.

63

The following table shows annual amortization expense, by asset classes that will be recorded over the next five years (in thousands):

	YEAR ENDED DECEMBER 31,				
	2009	2010	2011	2012	2013
Management service agreements	\$ 2,315	\$ 2,315	\$ 2,315	\$ 2,315	\$ 2,315
Covenant not to compete contracts	727	660	597	438	50
Trade names	150	150	150	150	109
Total annual amortization	\$ 3,192	\$ 3,125	\$ 3,062	\$ 2,903	\$ 2,474

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

NOTE 8 - ACCOUNTS PAYABLE AND ACCRUED EXPENSES (IN THOUSANDS)

	DECEMBER 31,	
	2008	2007
Accounts payable	\$26,071	\$13,288
Accrued expenses	37,950	31,950
Accrued payroll and vacation	11,506	8,216
Accrued professional fees	8,149	6,511
	-----	-----
Total	\$83,676	\$59,965
	=====	=====

NOTE 9 - NOTES PAYABLE, LONG-TERM DEBT, LINE OF CREDIT AND CAPITAL LEASES

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 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 first lien 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 additional \$25 million as part of our first lien Term Loan and \$10 million of additional capacity under our existing revolving line of credit bringing the total capacity to \$55 million. As of December 31, 2008, the Company qualified to borrow up to \$34 million on the revolver. 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

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

facilities were established in November 2006, we increased the Applicable LIBOR Margin to 4.25% for the revolving credit facility and first lien term loan and to 9.0% 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, not designated as a cash flow hedge, 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 a designated cash flow hedge 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,

64

we entered into a designated cash flow hedge 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. For the derivative held that is not designated as a cash flow hedging instrument, we recorded a decrease to interest expense of approximately \$707,000 and an increase to interest expense of \$820,000 for the years ended December 31, 2008 and 2007, respectively. The corresponding liability of approximately \$823,000 is included in accounts payable and accrued expenses in the consolidated balance sheet at December 31, 2008. Of the derivatives that were designated as cash flow hedging instruments, we recorded \$6.4 million to accumulated other comprehensive loss, and have an offsetting liability of the same amount, included in other non-current liabilities, for the fair value of these hedging instruments at December 31, 2008.

Subsequent to year end 2008, the Company was able to modify two of its three interest rate swaps. The modifications extended the maturity of, and re-priced two existing interest rate hedges originally executed in 2006 for an additional 36 months, resulting in an annualized cash interest expense savings of \$2.9 million. On one of the LIBOR hedge modifications for a notional amount of \$107 million of LIBOR exposure, the Company on January 29, 2009 replaced a fixed LIBOR rate of 5.02% with a new rate of 3.47% maturing on November 15, 2012. On the second LIBOR hedge modification for a notional amount of \$90 million of LIBOR exposure, the Company on February 5, 2009 replaced a fixed LIBOR rate of 5.03% with a new rate of 3.61% also maturing on November 15, 2012.

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

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

Revolving lines of credit

Notes payable at interest rates ranging from 8.8% to 13.5%, due through 2009, collateralized by medical equipment

Obligations under capital leases at interest rates ranging from 9.1% to 13.0%, due through 2010, collateralized by medical and office equipment

Less: current portion

20

\$

42

3

46

(2

\$ 44
=====

The following is a listing of annual principal maturities of notes payable and long-term obligations exclusive of capital leases and repayments on our revolving credit facilities for years ending December 31 (in thousands):

2009	\$ 5,501
2010	4,993
2011	5,711
2012	238,636
2013	170,395

	\$425,236
	=====

65

We lease equipment under capital lease arrangements. Future minimum lease payments under capital leases for years ending December 31 (in thousands) is as follows:

2009	\$ 17,700
2010	13,597
2011	8,288
2012	4,155
2013	615

Total minimum payments	44,355
Amount representing interest	(5,053)

Present value of net minimum lease payments	39,302
Less current portion	(15,064)

Long-term portion	\$ 24,238

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

=====

NOTE 10 - INCOME TAXES

Income taxes have been recorded under SFAS No. 109, "Accounting for Income Taxes." Deferred income taxes reflect the net tax effects of temporary differences between carrying amounts of assets and liabilities for financial and income tax reporting purposes and operating loss carryforwards. For the years ended December 31, 2008 and 2007, and the two months ended December 31, 2006, we recognized \$151,000, \$337,000 and \$20,000, respectively, of state income tax related to profitable imaging centers from Radiologix. We did not incur any federal or state income taxes during the year ended October 31, 2006.

Following is a reconciliation between the effective tax rate and the statutory tax rates:

	YEARS ENDED DECEMBER 31,		TWO MONTHS ENDED DECEMBER 31,
	2008	2007	2006
Federal tax	-34.00%	-34.00%	-34.00%
State franchise tax, net of federal benefit	1.26%	2.12%	0.00%
Non deductible expenses	1.44%	1.14%	0.70%
Provision to return reconciliation and other	-2.89%	1.36%	
Changes in valuation allowance	35.45%	31.50%	33.30%
Income tax expense	1.26%	2.12%	0.00%

66

Our deferred tax assets and liabilities comprise the following items:

Deferred Tax Assets & Liabilities:

	DECEMBER 31,	
	2008	2007
Deferred tax assets:		
Net operating losses	\$ 68,860	\$ 61,108
Tax Basis in Goodwill & Intangibles	25,276	26,657
Unfavorable contract liability	3,647	3,348
Allowance for doubtful accounts	1,510	1,482
Other	8,020	1,567
Valuation Allowance	(57,409)	(48,002)
Total Deferred Tax Assets	\$ 49,904	\$ 46,160
Deferred tax liabilities:		
Property Plant & Equipment	(7,421)	(7,638)
Book Basis in Goodwill	(19,195)	(14,276)
Book Basis in Intangibles	(23,065)	(24,275)
Other	(500)	(248)

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

Total Deferred Tax Liabilities	----- \$ (50,181) -----	----- \$ (46,437) -----
Net deferred tax liability	----- \$ (277) =====	----- \$ (277) =====

As of December 31, 2008, we had federal and state net operating loss carryforwards of approximately \$181.2 million and \$166.8 million, respectively, which expire at various intervals from the years 2007 to 2026. As of December 31, 2008, \$23.3 million of our federal net operating loss carryforwards acquired in connection with the 1998 acquisition of Diagnostic Imaging Services, Inc. and the 2006 acquisition of Radiologix Inc. were subject to limitations related to their utilization under Section 382 of the Internal Revenue Code. As of December 31, 2006, future ownership changes as determined under Section 382 of the Internal Revenue Code could further limit the utilization of net operating loss carryforwards. Realization of deferred tax assets is dependent upon future earnings, if any, the timing and amount of which are uncertain. Accordingly, the net deferred tax assets have been fully offset by a valuation allowance. Included in the net operating loss is \$1.6 million of excess tax benefits related to the exercise of nonqualified stock options which will be recorded in equity when realized.

We consider all evidence available when determining whether deferred tax assets are more likely-than-not to be realized, including tax planning strategies that would be employed to prevent an NOL from expiring unutilized. As of December 31, 2008, we have determined that deferred tax assets of \$49.9 million are more-likely than not to be realized. We have also determined that deferred tax liabilities of \$19.2 million are required related to book basis in goodwill that has an indefinite life.

For the next five years, and thereafter, federal net operating loss carryforwards expire as follows (in thousands):

Year Ended	TOTAL NET OPERATING LOSS CARRYFORWARDS	AMOUNT SUBJECT TO 382 LIMITATION
2009	\$ 18,562	\$ 5,337
2010	13,283	1,737
2011	1,501	1,501
2012	-	-
2013	-	-
Thereafter	147,852	14,698
	----- \$ 181,198 =====	----- \$ 23,273 =====

NOTE 11 - CAPITAL STRUCTURE AND CAPITAL TRANSACTIONS

STOCK INCENTIVE PLANS

We have three long-term incentive plans. We have not issued options under the 1992 plan since the adoption 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

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

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 plan. Stock options and warrants generally vest over two to five years and expire five to ten years from date of grant.

As of December 31, 2008, 932,500, or approximately 38.0%, of all the outstanding stock options and warrants under our option plans are fully vested. During the year ended December 31, 2008, we granted options and warrants to acquire approximately 1.4 million 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 grant. 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 grant.

As of December 31, 2008, 2,666,232, or approximately 77.7%, of all the outstanding warrants outside the 2006 plan are fully vested. During the year ended December 31, 2008, we granted warrants outside the 2006 plan to acquire 160,000 shares of common stock.

In anticipation of the adoption of SFAS No. 123(R), we did not modify the terms of any previously granted awards.

Mssrs. Linden, Hames and Stolper who hold the positions of Executive Vice President and General Counsel, Executive Vice President and Chief Operating Officer, Western Operations and Executive Vice President and Chief Financial Officer, respectively, were issued certain warrants in prior periods which fully vest upon the sooner of their respective multi-year vesting schedules or at such time as the 30 day average closing stock price of our shares in the public market in which it trades equals or exceeds \$6.00. For the 30 day trading period ended March 7, 2007, the average closing price exceeded \$6.00 per share. Accordingly, these warrants fully vested resulting in the expensing of the remaining unamortized fair value of these warrants of \$1.7 million in the first quarter of 2007. In 2007, we also recorded \$600,000 in bonus expense for the \$0.40 per share for each share exercised cash bonus Mr. Hames will receive for each vested share exercised (see Note 12).

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

FOR THE YEARS ENDED DECEMBER 31,		
2008		2007

IMPACT OF EQUITY-BASED COMPENSATION		

AS REPORTED	COMP.	AS REPORTED

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

Income from operations	\$ 32,590	\$ (2,902)	\$ 21,166	\$
Loss before income tax	\$ (12,685)	\$ (2,902)	\$ (17,794)	\$
Net loss	\$ (12,836)	\$ (2,902)	\$ (18,131)	\$
Net basic and diluted earning per share	\$ (0.36)	\$ (0.08)	\$ (0.52)	\$

[table continued]

	FOR THE TWO MONTHS ENDED DECEMBER 31, 2006		FOR THE YEAR ENDED OCTOBER 31, 2006	
	AS REPORTED	COMP.	AS REPORTED	
IMPACT OF EQUITY-BASED COMPENSATION				
Income from operations	\$ 1,360	\$ (78)	\$ 16,270	\$
Loss before income tax	\$ (10,963)	\$ (78)	\$ (6,894)	\$
Net loss	\$ (10,983)	\$ (78)	\$ (6,894)	\$
Net basic and diluted earning per share	\$ (0.35)	\$ (0.00)	\$ (0.33)	\$

68

The following summarizes all of our option and warrant transactions from January 1, 2006 to December 31, 2008:

Outstanding Options and Warrants Under the 2006 Plan	Shares	Weighted Average Exercise price Per Common Share	Remaining Contractual Life (in years)	
Balance, December 31, 2007	1,165,250	\$ 5.74		
Granted	1,355,000	5.06		
Exercised	(50,250)	1.44		
Canceled or expired	(19,000)	7.69		
Balance, December 31, 2008	2,451,000	5.44	4.88	\$
Exercisable at December 31, 2008	932,500	5.05	4.51	

Non-Plan Outstanding Warrants	Shares	Weighted Average Exercise price Per Common Share	Weighted Average Remaining Contractual Life (in years)	
Balance, December 31, 2007	3,996,667	\$ 1.85		
Granted	160,000	3.26		
Exercised	(621,666)	0.99		
Canceled or expired	(102,103)	1.78		

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

Balance, December 31, 2008	3,432,898	2.07	3.05	
	=====			
Exercisable at December 31, 2008	2,666,232	1.44	3.01	
	=====			

The aggregate intrinsic value in the table above represents the total pretax intrinsic value (the difference between our closing stock price on December 31, 2008 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holder had all option holders exercised their options on December 31, 2008. Total intrinsic value of options and warrants exercised during the year ended December 31, 2008 was approximately \$4.2 million. As of December 31, 2008, total unrecognized share-based compensation expense related to non-vested employee awards was approximately \$6.3 million, which is expected to be recognized over a weighted average period of approximately 3.1 years.

The fair value of each option 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, 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. The following is the average of the data used to calculate the fair value:

	RISK-FREE INTEREST RATE -----	EXPECTED LIFE ----	EXPECTED VOLATILITY -----
December 31, 2008	2.75%	3.41 years	71.75%
December 31, 2007	4.54%	4.19 years	94.38%
December 31, 2006	No options were granted during the two months ended December 31, 2006		
October 31, 2006	4.75% to 5.07%	3.5 years	96.21% to 101.31%

We have determined the 2008 and 2007 expected life assumption under the "Simplified Method" as defined in SAB 107 and 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 fair value of options granted during the years ended December 31, 2008 and 2007 was \$2.54 and \$3.43, respectively. No options were issued during the two months ended December 31, 2006. The weighted average fair value of options granted during the year ended October 31, 2006 was \$1.30.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

LEASES - We lease various operating facilities and certain medical equipment under operating leases with renewal options expiring through 2025. Certain leases contain renewal options from two to ten years and escalation based either on the consumer price index or fixed rent escalators. The schedule below includes lease renewals that are reasonably assured. Minimum annual payments under noncancellable operating leases for future years ending December 31 are as follows (in thousands):

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

	FACILITIES	EQUIPMENT	TOTAL
	-----	-----	-----
2009	\$ 27,320	\$ 11,211	\$ 38,531
2010	26,014	9,427	35,441
2011	23,590	5,262	28,852
2012	21,447	3,486	24,933
2013	18,484	2,343	20,827
Thereafter	74,771	--	74,771
	-----	-----	-----
	\$ 191,626	\$ 31,729	\$ 223,355
	=====	=====	=====

Total rent expense, including equipment rentals, for the years ended December 31, 2008 and 2007, the two months ended December 31, 2006 and the year ended October 31, 2006 was \$43.5 million, \$41.3 million, \$6.1 million and \$8.8 million, respectively.

Salaries and consulting agreements - We have a variety of arrangements for the payment of professional and employment services. The agreements provide for the payment of professional fees to physicians under various arrangements, including a percentage of revenue collected from 15.0% to 21.0%, fixed amounts per periods and combinations thereof.

In consideration of the continued employment by Norman Hames, our Executive Vice President and Chief Operating Officer - Western Operations and a director in March 2006 we issued to Mr. Hames a seven year warrant to purchase 1,500,000 shares at an exercise price of \$1.12 per share, the price of our common stock on the date of the transaction in the public market in which it trades, vesting over the seven year period. The issuance was an extension of the option originally issued to Mr. Hames in 2001 in connection with the sale of his business to us. We have agreed to provide to Mr. Hames a bonus of \$0.40 per share for each share exercised. This warrant fully vested in March 2007. Accordingly, we have accrued \$600,000 as of December 31, 2007 for the vested \$0.40 per share bonus.

EQUIPMENT SERVICE CONTRACT

On March 1, 2000, we entered into an equipment maintenance service contract through October 2005, extended through October 2009, with GE Medical Systems to provide maintenance and repair on the majority of our medical equipment for a fee based upon a percentage of net revenues, subject to certain minimum aggregate net revenue requirements.

LITIGATION

We are involved in the following litigation:

(a) 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.

The putative plaintiff class consists of those persons who purchased or otherwise acquired DVI, Inc. securities between August of 1999 and August of

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

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.

The plaintiff's have signed an agreement and given notice to the class that they intend to dismiss us from the case in exchange for our agreement not to seek costs in connection with our being named. The Court is expected to rule on the dismissal in April 2009.

70

GENERAL

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

NOTE 13 - EMPLOYEE BENEFIT PLAN

We adopted a profit-sharing/savings plan pursuant to Section 401(k) of the Internal Revenue Code that covers substantially all non-professional employees. Eligible employees may contribute on a tax-deferred basis a percentage of compensation, up to the maximum allowable under tax law. Employee contributions vest immediately. The plan does not require a matching contribution by us. There was no expense for any periods presented in the report.

NOTE 14 - QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following table sets forth a summary of our unaudited quarterly operating results for each of the last eight quarters in the years ended December 31, 2008 and 2007. This quarterly data has been derived from our unaudited consolidated interim financial statements which, in our opinion, have been prepared on substantially the same basis as the audited financial statements contained elsewhere in this report and include all normal recurring adjustments necessary for a fair presentation of the financial information for the periods presented. These unaudited quarterly results should be read in conjunction with our financial statements and notes thereto included elsewhere in this report. The operating results in any quarter are not necessarily indicative of the results that may be expected for any future period (in thousands except for earnings per share).

	2008 QUARTER ENDED				Mar 31
	Mar 31	June 30	Sept 30	Dec 31	
	(1)				
Statement of Operations Data:					
Net revenue	\$ 114,698	\$ 127,446	\$ 131,717	\$ 128,257	\$ 105,815
Total operating expenses	107,961	119,011	121,362	121,194	101,406

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

Total other expense	13,556	12,495	12,047	13,562	10,837
Equity in earnings of joint ventures	1,491	1,950	1,871	1,176	995
Minority interests in income of subsidiaries	(24)	(25)	(27)	(27)	(115)
Income tax expense	123	14	14	--	16
Net income (loss)	(5,475)	(2,149)	138	(5,350)	(5,564)
Basic earnings (loss) per share:	(0.15)	(0.06)	0.00	(0.15)	(0.16)
Diluted earnings (loss) per share:	(0.15)	(0.06)	0.00	(0.15)	(0.16)

(1) During the quarter ended December 31, 2008, the Company revised its estimate of the net realizable value of its accounts receivable and recorded a charge of \$7.2 million.

(2) During the quarter ended December 31, 2007, the Company revised its estimate of the net realizable value of its accounts receivable and recorded a charge of \$8.5 million.

71

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND

 FINANCIAL DISCLOSURE

Inapplicable.

ITEM 9A. CONTROLS AND PROCEDURES

We have performed an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures, as defined under the Securities Exchange Act of 1934. Based on that evaluation, our management, including our Chief Executive Officer, and Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of December 31, 2008 to ensure that information required to be disclosed by us in the reports filed or submitted by us under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. There were no significant changes in our disclosure controls and procedures during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer, and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2008 based on the

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

guidelines established in INTERNAL CONTROL -- INTEGRATED FRAMEWORK issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Our internal control over financial reporting includes policies and procedures that provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles GAAP.

Based on the results of our evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2008. We reviewed the results of management's assessment with our Audit Committee.

The effectiveness of the Company's internal control over financial reporting has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report appearing on the page immediately following, which expresses an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2008.

72

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders of
RadNet, Inc.

We have audited RadNet Inc. and subsidiaries ("RadNet's") internal control over financial reporting as of December 31, 2008, based on criteria established in INTERNAL CONTROL--INTEGRATED FRAMEWORK issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). RadNet's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying "Management's Report on Internal Control over Financial Reporting." Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely

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

detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

In our opinion RadNet, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the COSO criteria.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) the consolidated balance sheets of RadNet, Inc. as of December 31, 2008 and 2007, and the related consolidated statements of operations, stockholders' deficit, and cash flows for the years then ended and our report dated March 16, 2009 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Los Angeles, California
March 16, 2009

73

ITEM 9B. OTHER INFORMATION.

None

PART III

As used in this Part III, "RadNet" and the "Company" means RadNet, Inc.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item regarding the Company's directors and executive officers is incorporated herein by reference to the sections entitled "Proposal 1 - Election Of Directors" and "Compensation of Directors and Executive Officers" and "Corporate Governance - Board Committees - Section 16(a) Beneficial Ownership Reporting Compliance" in the Company's definitive Proxy Statement for the Annual Meeting of Shareholders to be held on May __, 2009 (the "Proxy Statement"). Information regarding the Company's executive officers is set forth in Part 1 of this Report under the caption "Executive Officers."

The Company adopted a code of financial ethics applicable to its chief executive officer, chief financial officer, controller and other finance leaders, which is a "code of ethics" as defined by applicable rules of the SEC. This code is publicly available on the Company's web site at WWW.RADNET.COM. If the Company makes any amendments to this code other than technical, administrative or other non-substantive amendments, or grants any waivers, including implicit waivers, from a provision of this code to the Company's chief executive officer, chief financial officer or controller, the Company will disclose the nature of the amendment or waiver, its effective date and to whom it applies on its web site or in a report on Form 8-K filed with the SEC.

ITEM 11. EXECUTIVE COMPENSATION

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

The information required by this item is incorporated by reference to the sections entitled "Compensation of Directors and Executive Officers" and "Compensation Discussion and Analysis" in the Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND

RELATED SHAREHOLDER MATTERS

The information required by this item is incorporated by reference to the sections entitled "Security Ownership of Certain Beneficial Owners and Management" and "Compensation of Directors and Executive Officers- Summary Compensation Table" in the Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR

INDEPENDENCE

The information required by this item is incorporated by reference to the section entitled "Certain Relationships and Related Party Transactions" in the Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is incorporated by reference to the sections entitled "Independent Registered Public Accounting Firm Fees" and "Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of the Independent Registered Public Accounting Firm" in the Proxy Statement.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

PAGE NO.

(a) Financial Statements - The following financial statements are filed herewith:

Reports of Independent Registered Public Accounting Firms	47 to 48
Consolidated Balance Sheets	49
Consolidated Statements of Operations	50
Consolidated Statements of Stockholders' Deficit	51
Consolidated Statements of Cash Flows	52
Notes to Consolidated Financial Statements	54 to 71

(b) Financial Statements Schedules

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

Schedules - The Following financial statement schedules are filed herewith:

Schedule II - Valuation and Qualifying Accounts

All other schedules are omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto.

RADNET, INC. AND SUBSIDIARIES

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

	BALANCE AT BEGINNING OF YEAR -----	CHARGES AGAINST INCOME -----	DEDUCTION FROM RESER -----
Year Ended December 31, 2008			
Accounts Receivable-Allowance for Bad Debts	\$ 11,571	\$ 30,833	\$ (30,338)
Year Ended December 31, 2007			
Accounts Receivable-Allowance for Bad Debts	\$ 8,486	\$ 27,467	\$ 24,382
Two months Ended December 31, 2006			
Accounts Receivable-Allowance for Bad Debts	\$ 1,490	\$ 3,907	\$ (3,807)
Year Ended October 31, 2006			
Accounts Receivable-Allowance for Bad Debts	\$ 980	\$ 7,626	\$ 7,116

75

(c) Exhibits - The following exhibits are filed herewith or incorporated by reference herein:

EXHIBIT NO. -----	DESCRIPTION OF EXHIBIT -----
2.1.1	Agreement and Plan of Merger, dated as of July 6, 2006, by and among Primedex, Radiologix, RadNet and Merger Sub
2.1.2	Agreement and Plan of Merger and Reorganization, dated as of September 3, 2008
3.1.1	Certificate of Incorporation as amended
3.1.2	November 17, 1992 amendment to the Certificate of Incorporation
3.1.3	December 27, 2000 amendment to the Certificate of Incorporation
3.1.4	November 15, 2006 amendment to the Certificate of Incorporation
3.1.5	November 27, 2006 amendment to the Certificate of Incorporation
3.1.6	Certificate of Incorporation of RadNet, Inc., a Delaware corporation
3.1.7	Certificate of Amendment to Certificate of Incorporation of RadNet, Inc., a Delaware corporation, dated September 2, 2008

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

3.3	By-laws
3.2.1	First Amendment to By-laws
4.1	Form of Common Stock Certificate
4.2	Form of Supplemental Indenture between Registrant and American Stock Transfer and Trust Company as Incorporated by Indenture Trustee with respect to the 11.5% Series A Convertible Subordinated Debentures due 2008
4.3	Form of 11.5% Series A Convertible Subordinated Debenture Due 2008 [Included in Exhibit 4.2]
10.1	Employment Agreement dated as of June 12, 1992 between RadNet and Howard G. Berger, M.D. and amendment to Agreement.*
10.6	Securities Purchase Agreement dated March 22, 1996, between the Company and Diagnostic Imaging Services, Inc.
10.7	Stockholders Agreement by and among the Company, Diagnostic Imaging Services, Inc. and Norman Hames
10.8	Securities Purchase Agreement dated June 18, 1996 between the Company and Norman Hames
10.10	DVI Securities Purchase Agreement
10.11	General Electric Note Purchase Agreement
10.12	Securities Purchase Agreement between the Company and Howard G. Berger, M.D.
10.13	2000 Long-Term Incentive Plan*
10.14	Employment Agreement dated April 16, 2001, with Jeffrey L. Linden and amendment to agreement*
10.15	Employment Agreement with Norman R. Hames dated May 1, 2001 and amendment to agreement*

76

EXHIBIT NO. -----	DESCRIPTION OF EXHIBIT -----
10.16	Amended and Restated Management Agreement with Beverly Radiology Medical Group III dated as of January 1, 2004
10.18	Incentive Stock Option Plan*
10.19	DVI Agreement as amended
10.20	Master Amendment Agreement with General Electric Capital Corporation, General Electric Company and GE Healthcare Financial Services
10.21	Amended, Restated and Consolidated Loan and Security Agreement with DVI Financial Services, Inc.
10.22	Amendment to Loan Documents re US Bank Portfolio Services

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

10.23	Credit Agreement with Wells Fargo Foothill, Inc.
10.24	Employment Agreement with Mark Stolper dated July 30, 2004*
10.25	Second Amended and Restated Loan and Security Agreement with Post Advisory Group, LLC
10.26	Amended, Restated and Consolidated Loan and Security Agreement with Post Advisory Group, LLC
10.27	Fourth Amendment to Credit Agreement Substituting Bridge Healthcare Finance, LLC for Wells Fargo Foothill, Inc.
10.28	2006 Incentive Stock Plan*
10.29	Credit Agreement, dated as November 15, 2006, among Radnet Management, Inc., the Credit Parties designated therein, General Electric Capital Corporation, as Agent, the lenders described therein, and GE Capital Markets, Inc.
10.30	Guaranty, dated as of November 15, 2006, by and among the Guarantors identified therein and General Electric Capital Corporation.
10.31	Pledge Agreement, dated as of November 15, 2006, by and among the Pledgors (P) identified therein and General Electric Capital Corporation.
10.32	Security Agreement, dated as of November 15, 2006, by and among the Grantors identified therein and General Electric Capital Corporation.
10.33	Second Lien Credit Agreement, dated as of November 15, 2006, among Radnet Management, Inc., the Credit Parties designated therein, General Electric Capital Corporation, as Agent, the Lenders described therein, and GE Capital Markets, Inc.
10.34	Second Lien Guaranty, dated as of November 15, 2006, by and among the (P) Guarantors identified therein and General Electric Capital Corporation.
10.35	Pledge Agreement, dated as of November 15, 2006, by and among the Pledgors (P) identified therein and General Electric Capital Corporation.
10.36	Second Lien Security Agreement, dated as of November 15, 2006, by and among the Grantors identified therein and General Electric Capital Corporation.
10.37	Retention Agreement with Stephen Forthuber dated November 15, 2006.
10.38	Amendment of Existing Credit Agreement with General Electric Capital Corporation dated November 2007.
10.39	Amendment of Existing Credit Agreement with General Electric Capital Corporation dated February 2008.

77

EXHIBIT NO. -----	DESCRIPTION OF EXHIBIT -----
10.40	First amendment to the 2006 Equity Incentive Plan

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

10.41	Form of warrant recharacterized as under the 2006 Equity Incentive plan - Form A
10.42	Form of warrant recharacterized as under the 2006 Equity Incentive plan - Form B
10.43	Form of Indemnification Agreement between the registrant and each of its officers and directors
14	Code of Financial Ethics
21	List of Subsidiaries
23.1	Consent of Registered Independent Public Accounting Firm
31.1	CEO Certification pursuant to Section 302
31.2	CFO Certification pursuant to Section 302
32.1	CEO Certification pursuant to Section 906
32.2	CFO Certification pursuant to Section 906

* Management contract with compensatory arrangement.

- (A) Incorporated by reference to exhibit filed with Registrant's Registration Statement on Form S-1 File No. 33-51870.
- (B) Incorporated by reference to exhibit filed with Registrant's Registration Statement on Form T-3 File No. 022-28703.
- (C) Incorporated by reference to exhibit filed in an amendment to Form 8-K report for June 12, 1992.
- (D) Incorporated by reference to exhibit filed with Form 10-K for the year ended October 31, 1996.
- (E) Incorporated by reference to exhibit filed with the Form 10-K for the year ended October 31, 2000.
- (F) Incorporated by reference to exhibit filed with the Form 10-Q for the quarter ended January 31, 2000.
- (G) Incorporated by reference to exhibit filed with the Form 10-K for the year ended October 31, 2001.
- (H) Incorporated by reference to exhibit filed with the Form 10-K for the year ended October 31, 2003.
- (I) Incorporated by reference to exhibit filed with the Form 10-Q for the quarter ended January 31, 2004.
- (J) Incorporated by reference to exhibit filed with the Form 10-Q for the quarter ended April 30, 2004.
- (K) Incorporated by reference to exhibit filed with the Form 8-K report for August 2, 2004.
- (L) Incorporated by reference to exhibit filed with Form 8-K for November

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

29, 2004.

- (M) Incorporated by reference to exhibit filed with Form 8-K for September 14, 2005.
- (N) Incorporated by reference to exhibit filed with Form 10-K for October 31, 2004.
- (O) Incorporated by reference to exhibit filed with Registrant's Registration Statement on Form S-4 (File No. 333-136800).
- (P) Incorporated by reference to exhibit filed with Form 8-K for November 15, 2006.
- (Q) Incorporated by reference to exhibit filed with Form 8-K for November 27, 2006.
- (R) Incorporated by reference to exhibit filed with Form 10-K for October 31, 2006.

78

- (S) Incorporated by reference to exhibit filed with Form 10-K/T for December 31, 2006.
- (T) Incorporated by reference to exhibit filed with Form 8-K for August 24, 2007.
- (U) Incorporated by reference to exhibit filed with Form 8-K for November 30, 2007.
- (V) Incorporated by reference to exhibit filed with Form 10-K for December 31, 2007.
- (W) Incorporated by reference to exhibit filed with Form 10-Q for the quarter ended June 30, 2008.
- (X) Incorporated by reference to exhibit filed with Form 10-Q for the quarter ended March 31, 2008.
- (Y) Incorporated by reference to exhibit filed with Form 8-K for September 3, 2008.
- (Z) Filed herewith.

79

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.

Date: March 16, 2009

RADNET, INC.

/s/ HOWARD G. BERGER, M.D.

HOWARD G. BERGER, M.D., PRESIDENT,
CHIEF EXECUTIVE OFFICER AND DIRECTOR

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

By _____ /s/ HOWARD G. BERGER, M.D.

HOWARD G. BERGER, M.D., DIRECTOR, CHIEF EXECUTIVE OFFICER AND PRESIDENT
Date: March 16, 2009

By _____ /s/ MARVIN S. CADWELL

MARVIN S. CADWELL, DIRECTOR
Date: March 16, 2009

By _____ /s/ JOHN V. CRUES, III, M.D.

JOHN V. CRUES, III, M.D., DIRECTOR
Date: March 16, 2009

By _____ /s/ NORMAN R. HAMES

NORMAN R. HAMES, DIRECTOR
Date: March 16, 2009

By _____ /s/ DAVID L. SWARTZ

DAVID L. SWARTZ, DIRECTOR
Date: March 16, 2009

By _____ /s/ LAWRENCE L. LEVITT

LAWRENCE L. LEVITT, DIRECTOR
Date: March 16, 2009

80

By _____ /s/ MICHAEL L. SHERMAN, M.D.

MICHAEL L. SHERMAN, M.D., DIRECTOR
Date: March 16, 2009

By _____ /s/ MARK D. STOLPER

MARK D. STOLPER, CHIEF FINANCIAL OFFICER (Principal Accounting Officer)

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

Date: March 16, 2009