RADIOLOGIX INC
Form 10-Q
May 15, 2002

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2002

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

FOR THE TRANSITION PERIOD FROM ____________________

COMMISSION FILE NO. 0-23311

RADIOLOGIX, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	75-2648089
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2200 ROSS AVENUE
3600 JP MORGAN CHASE TOWER
DALLAS, TEXAS 75201-2776
(Address of principal executive offices, including zip code)

(214) 303-2776
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities 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 [X]   No [ ]

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

Class	Outstanding at May 13, 2002
COMMON STOCK, $0.0001 PAR VALUE	20,403,974 SHARES

RADIOLOGIX, INC.

FORM 10-Q

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RADIOLOGIX, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS)

ASSETS

	DECEMBER 31, 2001	MARCH 31, 2002 (UNAUDITED)
CURRENT ASSETS:		
Cash and cash equivalents	$ 10,761	$ 17,472
Accounts receivable, net of allowances	71,325	70,172
Due from affiliates	2,673	5,428

Income tax receivable	350	350
Other current assets	10,517	8,321
Total current assets	95,626	101,743
PROPERTY AND EQUIPMENT, net	60,339	57,447
INVESTMENTS IN JOINT VENTURES	7,095	8,138
GOODWILL	28,510	28,510
INTANGIBLE ASSETS, net	69,583	68,746
DEFERRED FINANCING COSTS, net	10,837	10,629
OTHER ASSETS		
Deferred income tax asset	3,867	3,867
Notes receivable	6,184	6,357
Other assets, net	2,684	2,740
Total assets	$ 284,725	$ 288,177
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 17,743	$ 20,080
Accrued physician retention	8,832	9,995
Accrued salaries and benefits	8,318	5,661
Current portion of long term debt	398	350
Current portion of capital lease obligations	5,066	4,919
Other current liabilities	55	63
Total current liabilities	40,412	41,068
DEFERRED INCOME TAXES	6,619	6,619
LONG-TERM DEBT, net of current portion	184,905	179,766
CAPITAL LEASE OBLIGATIONS, net of current portion	6,783	5,330
OTHER LIABILITIES	348	178
Total liabilities	239,067	232,961
COMMITMENTS AND CONTINGENCIES		
MINORITY INTERESTS IN CONSOLIDATED SUBSIDIARIES	1,182	1,402
STOCKHOLDERS' EQUITY:		
Common stock	2	2
Additional paid-in capital	347	5,437
Treasury stock	--	(180)
Retained earnings	44,127	48,555
Total stockholders' equity	44,476	53,814
Total liabilities and stockholders' equity	$ 284,725	$ 288,177

See accompanying notes to unaudited consolidated financial statements.

RADIOLOGIX, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	FOR THE THREE MONTHS ENDED MARCH 31, 2001	2002
	(UNAUDITED)	
SERVICE FEE REVENUE	$ 65,911	$ 72,722
COSTS AND EXPENSES:		
Salaries and benefits	18,429	20,536
Field supplies	3,842	4,305
Field rent and lease expense	8,228	8,078
Other field expenses	11,431	12,075
Bad debt expense	6,406	6,102
Corporate general and administrative	2,970	3,905
Depreciation and amortization	5,603	6,206
Interest expense, net	4,400	4,894
INCOME BEFORE TAXES, EQUITY IN EARNINGS OF INVESTMENTS AND MINORITY INTERESTS IN CONSOLIDATED SUBSIDIARIES	4,602	6,621
Equity In Earnings Of Investments	1,492	1,121
Minority Interests In Consolidated Subsidiaries	(264)	(361)
INCOME BEFORE INCOME TAXES	5,830	7,381
Income Tax Expense	2,332	2,952
NET INCOME	$ 3,498	$ 4,429
NET INCOME PER COMMON SHARE:		
Basic	$ .18	$ .22
Diluted	$ .17	$ .20
WEIGHTED AVERAGE SHARES OUTSTANDING:		
Basic	19,507,301	20,023,179
Diluted	22,171,451	23,966,896

See accompanying notes to unaudited consolidated financial statements.

RADIOLOGIX, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	FOR THE THREE MONTHS ENDED MARCH 31,	
	2001	2002
	(UNAUDITED)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 3,498	$ 4,42
Adjustments to reconcile net income to net cash provided by operating activities:		
Minority interests	264	36
Depreciation and amortization	5,603	6,20
Equity in earnings of investments	(1,492)	(1,12
Non-cash income from receipt of treasury stock	--	(18
Changes in assets and liabilities:		
Accounts receivable, net	(3,189)	(2,69
Other receivables and current assets	3,790	3,11
Accounts payable and accrued expenses	2,352	68
Net cash provided by operating activities	10,826	10,79
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(2,317)	(2,98
Joint ventures	678	(6
Other investments	1,802	84
Net cash provided by (used in) investing activities	163	(2,20
CASH FLOWS FROM FINANCING ACTIVITIES:		
Senior credit facility, net	3,000	-
Payments on long-term debt	(1,813)	(1,73
Financing costs	--	(18
Proceeds from exercise of stock options	--	4
Other	(2,748)	-
Net cash used in financing activities	(1,561)	(1,87
NET INCREASE IN CASH AND CASH EQUIVALENTS	9,428	6,71
CASH AND CASH EQUIVALENTS, beginning of period	3,620	10,76
CASH AND CASH EQUIVALENTS, end of period	$ 13,048	$ 17,47

See accompanying notes to unaudited consolidated financial statements.

RADIOLOGIX, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. DESCRIPTION OF BUSINESS

Radiologix, Inc. (together with its subsidiaries, "Radiologix" or the "Company"), a Delaware corporation, is a leading national provider of diagnostic imaging services through its ownership and operation of free-standing, outpatient diagnostic imaging centers. Radiologix utilizes sophisticated technology and technical expertise to perform a broad range of imaging procedures, such as magnetic resonance imaging (or MRI), computed tomography (or CT), positron emission tomography (or PET), nuclear medicine, ultrasound, mammography, bone densitometry (or DEXA), general radiography (or X-ray) and fluoroscopy. Radiologix operates 118 diagnostic imaging centers located in 18 states, with a concentration of diagnostic imaging centers in markets located in California, Florida, Kansas, Maryland, New York, Texas and Virginia. Radiologix offers multi-modality imaging services at 70 of its diagnostic imaging centers, which provide patients and referring physicians access to advanced diagnostic imaging services in one convenient location.

Radiologix also provides administrative, management and information services to certain radiology practices that provide professional services in connection with its diagnostic imaging centers and to hospitals and radiology practices with which the Company operates joint ventures. The services Radiologix provides leverage its existing infrastructure and improve radiology practice or joint venture profitability, efficiency and effectiveness.

Radiologix has two models by which it contracts with radiology practices: a comprehensive services model and a technical services model. Under the comprehensive services model, the Company enters 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 Radiologix's diagnostic imaging equipment and the provision of technical services, the Company provides management services and receives a fee based on the practice group's professional revenue, including revenue derived from outside of our diagnostic imaging centers. Under the technical services model, the Company enters into a shorter-term agreement with a radiology practice group (typically 10 to 15 years) and pays them a fee based on cash collections from reimbursements for imaging procedures. In both the comprehensive services and technical services models, the Company owns the diagnostic imaging assets, and, therefore, receives 100% of the technical reimbursements associated with imaging procedures. Additionally, in most instances, both the comprehensive services and the technical services models contemplate an incentive technical bonus for the radiology group if the net technical income exceeds specified thresholds. The service agreements cannot be terminated by either party without cause, consisting primarily of bankruptcy or material default. However, under certain conditions, Radiologix can terminate the service agreement if the number of physicians in a practice falls below a certain percentage of the total physicians of the radiology practice. Two physicians of two of the contracted radiology practices are members of the Board of Directors of the Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States and include the accounts of the Company and its wholly owned and majority owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates in the Preparation of the Financial Statements

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

Impairment of Long-Lived Assets

Subsequent to an acquisition, Radiologix continually evaluates whether events and circumstances have occurred that indicate the remaining balance of the intangible assets and property and equipment may not be recoverable or that the remaining useful lives may warrant revision. Radiologix evaluates the potential impairment of intangibles separately from property and equipment. When factors indicate that intangible assets or property and equipment should be evaluated for possible impairment, Radiologix determines whether the intangible assets or property and equipment are recoverable or if impairment exists, in which case an adjustment is made to the carrying value of the related asset. In making this determination, Radiologix uses an estimate of the related contracted radiology practices' and diagnostic imaging services' undiscounted cash flows over the remaining lives of the intangible assets or the property and equipment and compare it to the contracted radiology practices' and diagnostic imaging centers' intangible assets or property and equipment balances. When an adjustment is required, Radiologix evaluates the remaining amortization periods. An impairment loss recognized would be measured as the amount by which the carrying amount of the asset exceeds the fair value of the asset. Radiologix recorded no impairment charges during 2001 or 2002.

Recent Accounting Pronouncement

Radiologix adopted Statement of Financial Accounting Standards ("SFAS") "Accounting for the Impairment or Disposal of Long-Lived Assets" effective January 1, 2002. SFAS 144 addresses financial accounting and reporting for the impairment of long-lived assets and for long-lived assets to be disposed of. This statement supersedes SFAS 121; however, SFAS 144 retains the fundamental provisions of SFAS 121 for (a) recognition and measurement of the impairment of long-lived assets to be held and used and (b) measurement of long-lived assets to be disposed of by sale. SFAS 144 also supersedes the accounting and reporting provisions of APB Opinion No, 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" for segments of a business to be disposed of.

Radiologix adopted SFAS No. 142, "Goodwill and Other Intangible Assets" effective January 1, 2002. Under SFAS 142, goodwill and other intangible assets with an indefinite useful life are no longer amortized as expenses of operations, but rather carried on the balance sheet as permanent assets. These intangible assets are to be subject to at least annual assessments for impairment by applying a fair value based test. The Company's service agreements, included in the consolidated balance sheets as intangible assets, net, are not considered to have an indefinite useful life and will continue to be amortized over a useful life of 25 years.

As required by the statement, intangible assets that do not meet the criteria for recognition apart from goodwill must be reclassified. As a result, $28.5 million of intangible assets, primarily relating to acquired intangible assets, were transferred to goodwill as of January 1, 2002.

With the adoption of the statement, Radiologix ceased amortization of goodwill as of January 1, 2002. The following table presents the quarterly results on a comparable basis (in thousands):

	FOR THE THREE MONTHS ENDED MARCH 31,	
	2001	2002
Net Income	$ 3,498	$ 4,429
Goodwill (net of tax)	181	--
Adjusted Net Income	$ 3,679	$ 4,429
Basic Earnings Per Share:		
Net Income	$ .18	$ .22
Goodwill, net of tax	.01	--
Adjusted Net Income	$ .19	$ .22
Diluted Earnings Per Share:		
Net Income	$ .17	$ .20
Goodwill, net of tax	.01	--
Adjusted Net Income	$ .18	$ .20

As of January 1, 2002, Radiologix completed a goodwill impairment test. This test involved the use of estimates related to the fair market value of Radiologix's reporting units with which the goodwill was associated. No impairment was indicated at that time.

Revenue Presentation

The Financial Accounting Standards Board's Emerging Issues Task Force issued its abstract, Issue 97-2, "Application of FASB Statement No. 94 and Accounting Principles Board ("APB") Opinion No. 16 to Physician Practice Management Entities and Certain Other Entities with Contractual Arrangements" ("EITF 97-2"). Since Radiologix has not established a "controlling financial interest" under EITF 97-2, Radiologix does not consolidate the contracted radiology practices.

The following table sets forth the amounts of revenue for the contracted radiology practices and diagnostic imaging centers for the three months ended March 31, 2001 and 2002 that would have been presented in the consolidated statements of income had Radiologix met the provisions of EITF 97-2 (in thousands):

	2001	2002
Revenue from contracted radiology practices and diagnostic imaging centers, net of contractual allowances ...	$ 92,285	$ 99,529
Less: amounts retained by contracted radiology practices	(26,374)	(26,807)
Service fee revenue, as reported	$ 65,911	$ 72,722

Revenue of the contracted radiology practices and diagnostic imaging centers is recorded when services are rendered by the contracted radiology practice and diagnostic imaging center based on established charges and reduced by contractual allowances and estimated bad debts. Estimated bad debts are recognized as a cost and expense rather than a deduction from revenue. The Company uses historical collection experience in estimating its contractual allowances and bad debt expense. The factors influencing the historical collection experience include the contracted radiology practices' and diagnostic imaging centers' patient mix, impact of managed care contract pricing and contract revenue and the aging of patient accounts receivable balances. As these factors change, the historical collection experience is revised accordingly in the period known.

Service fee revenue represents contracted radiology practices' and diagnostic imaging centers' revenue less amounts retained by contracted radiology practices. The amounts retained by contracted radiology practices represents amounts paid to the physicians pursuant to the service agreements between Radiologix and the contracted radiology practices. Under the service agreements, the Company provides each contracted radiology practice with the facilities and equipment used in its medical practice, assumes responsibility for the management of the operations of the practice, and employs substantially all of the non-physician personnel utilized by the contracted radiology practice. Although Radiologix assists in negotiating managed care contracts for the contracted radiology practices, it assumes no risk under these arrangements.

The Company's service fee revenue is dependent upon the operating results of the contracted radiology practices and diagnostic imaging centers. Where state law allows, service fees due under the service agreements for the contracted radiology practices are derived from two distinct revenue streams: (1) a negotiated percentage (typically 20% to 30%) of the adjusted professional revenues as defined in the service agreements; and (2) 100% of the adjusted technical revenues as defined in the service agreements. In states where the law requires a flat fee structure, Radiologix has negotiated a base service fee, which is equal to the estimated fair market value of the services provided under the service agreements and which is renegotiated each year to equal the fair market value of the services provided under the service agreements. The fixed fee structure results in Radiologix receiving substantially the same amount of service fee as it would have received under its negotiated percentage fee structure. Adjusted professional revenues and adjusted technical revenues are determined by deducting certain contractually agreed-upon expenses (non-physician salaries and benefits, rent, depreciation, insurance, interest and other physician costs) from the contracted radiology practices' revenue. Questar revenues are primarily derived from technical revenues generated from its diagnostic imaging centers.

Service fee revenue consists of the following for the three months ended March 31 (in thousands):

	2001	2002
Professional component	$ 15,234	$ 14,794
Technical component	50,677	57,928
	$ 65,911	$ 72,722

3. LONG TERM DEBT

Senior Notes

In December 2001, the Company terminated its senior credit facility with proceeds from a $160 million senior notes ("Senior Notes") issuance, due December 15, 2008. In connection with the repayment, the Company recorded in December 2001 an extraordinary loss from the early extinguishment of its senior credit facility debt in the amount of $4.7 million, $2.8 million after tax. The Senior Notes bear interest at an annual rate of 10-1/2% payable semiannually in arrears on June 15 and December 15 of each year, commencing June 15, 2002. The Senior Notes are redeemable on or after December 15, 2005 at various redemption prices, plus accrued and unpaid interest to the date of redemption. The Senior Notes are unsecured obligations which rank senior in right of payment to all of our subordinate indebtedness and equal in right of payment with all other senior indebtedness. The Senior Notes are unconditionally guaranteed on a senior unsecured basis by certain restricted existing and future subsidiaries.

Credit Facility

In addition to the Senior Notes issuance in December 2001, the Company entered into a credit facility whereby the Company can borrow up to $35 million. At March 31, 2002, no borrowings were outstanding under the credit facility. Under the credit facility the interest rate is (i) an adjusted LIBOR rate, plus an applicable margin which can vary from 3.0% to 3.5% dependent on certain financial ratios or (ii) the prime rate, plus an applicable margin which can vary from 1.75% to 2.25%. In each case, the applicable margin varies based on financial ratios maintained by the Company. The credit facility includes certain restrictive covenants including prohibitions on the payment of dividends, limitations on capital expenditures and the maintenance of certain financial ratios (including minimum fixed charge coverage ratio and maximum leverage ratio, as defined). Borrowings under the senior credit facility are secured by all service agreements which the Company is or becomes a party to, a pledge of the stock of the Company's subsidiaries and all of the Company's and its wholly owned subsidiaries assets.

Convertible Subordinated Debt

The Company has a $19.2 million convertible junior subordinated note, which matures July 31, 2009, and bears interest, payable quarterly in cash or payment in kind securities, at an annual rate of 8.0%. If by August 1, 2002 or

August 1, 2003 the closing price of Radiologix's common stock has not exceeded $7.52 for 45 of the 60 days of the determination period, the interest rate will be increased to 8.25% and 8.5%, respectively. In February 2002, approximately $4.8 million of the convertible junior subordinated note was converted into 633,862 shares. In March 2002, approximately $219,000 of the convertible junior subordinated note was converted into 37,476 shares.

4. EARNINGS PER SHARE

Radiologix adopted the SFAS No. 128, "Earnings per Share" ("EPS") effective December 31, 1997. SFAS No. 128 simplifies the computation of EPS by replacing the presentation of primary EPS with a presentation of basic EPS. Basic EPS is calculated by dividing income available to common stockholders by the weighted average number of common shares outstanding during the period (including shares to be issued). Options, warrants, and other potentially dilutive securities are excluded from the calculation of basic EPS. Diluted EPS includes the options, warrants, and other potentially dilutive securities that are excluded from basic EPS using the treasury stock method to the extent that these securities are not anti-dilutive. For the three months ended March 31, 2001 and 2002, 302,275 and 1,159,546 shares, respectively, related to stock options were included in diluted EPS. Diluted EPS also includes the effect of the convertible note (see Note 3) using the "if converted" method to the extent the securities are not anti-

dilutive. For the three months ended March 31, 2001, and 2002, under the "if converted" method, $251,000 and $261,000, respectively, of tax effected interest savings and 2,318,841 and 2,783,631, respectively, weighted average shares were included in the calculation of diluted EPS as an addition to net income and weighted average shares outstanding, respectively.

5. SEGMENT REPORTING

The Company reports the results of its operations through four designated regions of the United States: Mid-Atlantic, Northeastern, Central and Western regions. In addition, the Company reports the results of its operations of the imaging centers of its subsidiary, Questar. The Company's operations in each of the four designated regions are comprised of the ownership and operation of diagnostic imaging centers and the provision of administrative, management and information services to the contracted radiology practices that provide professional interpretation and supervision services in connection with its diagnostic imaging centers and to hospitals and radiology practices with which the Company operates joint ventures. The Company's services leverage our existing infrastructure and improve radiology practice or joint venture profitability, efficiency and effectiveness. The Company has divided the operations into the four regions and Questar only for purposes of the division of internal management responsibilities, but do not focus on each of these regions as a separate product line or make financial decisions as if they were separate product lines. The Questar operations are looked at as a separate group only from the perspective that the imaging centers of Questar do not have the same type of management service agreement with physicians as we have with each of the contracted radiology practices in the four designated regions. In addition, any imaging centers of Questar that are in the same region as the operations of the contracted radiology practices in the four designated regions are not included in the service agreements of the contracted radiology practices. The following is a table, which summarizes the operating results and assets by the five reportable segments:

	FOR THE THREE MONTHS ENDED MARCH 31, 2002 (IN THOUSANDS)			
	Mid-Atlantic Region (1)	Northeastern Region (2)	Central Region (3)	Western Region (4)
Service fee revenue	$ 30,275	16,208	8,674	8,605
Total operating expenses	$ 20,480	11,587	5,904	6,355
Contribution	$ 9,795	4,621	2,770	2,250
Contribution margin	32%	29%	32%	26%
Equity in earnings of Investments	$ 866	--	255	--
Minority interest	$ (246)	--	(108)	--
Depreciation and amortization expense	$ 1,952	851	484	878
Interest expense	$ 489	192	140	233
Income before taxes	$ 7,974	3,578	2,293	1,139
Assets	$ 63,781	44,326	24,956	21,139
Purchases of property and equipment	$ 1,468	1,586	(464)	208

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	FOR THE THREE MONTHS ENDED MARCH 31, 2001 (IN THOUSANDS)			
	Mid-Atlantic Region(1)	Northeastern Region(2)	Central Region(3)	Western Region(4)
Service fee revenue	$ 26,445	15,046	8,231	7,822
Total operating expenses	$ 18,522	11,114	5,349	6,238
Contribution	$ 7,923	3,932	2,882	1,584
Contribution margin	30%	26%	35%	20%
Equity in earnings of investments	$ 1,100	--	392	--
Minority interest	$ (153)	--	(110)	--
Depreciation and amortization expense	$ 1,625	757	355	682
Interest expense	$ 422	180	99	149
Income before taxes	$ 6,823	2,995	2,710	753
Assets	$ 52,319	42,494	22,817	19,628
Purchases of property and equipment	$ 1,570	248	277	122

(1) Includes the Baltimore/Washington, D.C. Metropolitan area.

(2) Includes Rochester, New York, Rockland County, New York and the surrounding areas.

(3) Includes San Antonio, Texas, St. Lucie County, Florida, Topeka, Kansas, Northeast Kansas and the surrounding areas

(4) Includes the San Francisco/Oakland/San Jose, California and surrounding areas

(5) Includes diagnostic imaging centers in Arizona, California, Colorado, Delaware, Florida, Georgia, Illinois, Kansas, Minnesota, Missouri, Nebraska, Nevada, Ohio and Pennsylvania that were acquired as part of the Questar acquisition and that have not been integrated into pre-existing Radiologix market areas.

Corporate assets, including intangible assets, as of March 31, 2001 and 2002 were $119,671 and $112,979, respectively.

The following is a reconciliation of income before taxes and purchases of property and equipment by the Company's five reportable segments to the Company's consolidated financial statements for the three months ended March 31, in thousands:

	2001	2002
Segment profit	$ 13,559	$ 16,114
Unallocated amounts:		
Corporate general and administrative	(2,970)	(3,905)
Corporate other income	--	180
Corporate depreciation and amortization	(1,507)	(1,383)
Corporate interest expense	(3,252)	(3,625)
Income before taxes	$ 5,830	$ 7,381

Expenditures:	2001	2002
Segment purchases of property and equipment	$ 2,234	$ 2,798
Corporate purchases of property and equipment	83	189
Total purchases of property and equipment	$ 2,317	$ 2,987

6. SUPPLEMENTAL GUARANTOR INFORMATION

In connection with the Senior Notes, certain of the Company's subsidiaries ("Subsidiary Guarantors") guaranteed, jointly and severally, the Company's obligation to pay principal and interest on the Senior Notes on a full and unconditional basis.

The following supplemental condensed consolidating financial information presents the balance sheet as of December 31, 2001 and March 31, 2002, and the statements of income and cash flows for the three months ended March 31, 2001 and 2002. In the consolidating condensed financial statements, the Subsidiary Guarantors account for their investment in the non-guarantor subsidiaries using the equity method.

The non-guarantor subsidiaries include Advanced PET Imaging of Maryland, L.P., Lakewood OpenScan MR, LLC, Lexington MR, Ltd., Montgomery Community Magnetic Imaging Center Limited Partnership, Tower OpenScan MRI, and MRI at St. Joseph Medical Center LLC. The Guarantor Subsidiaries include all wholly owned subsidiaries of Radiologix, Inc. (the "Parent").

RADIOLOGIX, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATING BALANCE SHEET (UNAUDITED)

MARCH 31, 2002
(IN THOUSANDS)

	PARENT	SUBSIDIARY GUARANTORS	NON-GUARANTOR SUBSIDIARIES	EL
ASSETS:				
Cash and cash equivalents	$ 14,432	$ 498	$ 2,542	$
Accounts receivable, net	--	67,638	2,534	
Other current assets	124	14,169	(194)	
Total current assets	14,556	82,305	4,882	
Property and equipment, net	2,370	51,460	3,617	
Investment in subsidiaries	119,869	--	--	
Goodwill	--	28,510	--	
Intangible assets, net	--	67,016	1,730	
Other assets, net	16,816	14,860	55	
	$ 153,611	$ 244,151	$ 10,284	$
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT):				
Accounts payable and accrued expenses ...	$ 11,086	$ 22,714	$ 1,936	$
Current portion of long-term debt	71	4,512	686	
Other current liabilities	91	(28)	--	
Total current liabilities	11,248	27,198	2,622	
Long-term debt, net of current portion ..	178,830	4,680	1,586	
Other noncurrent liabilities	(90,281)	99,157	(2,079)	
Minority interests	--	--	1,402	
Stockholders' equity (deficit)	53,814	113,116	6,753	
	$ 153,611	$ 244,151	$ 10,284	$

RADIOLOGIX, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATING BALANCE SHEET (AUDITED)

DECEMBER 31, 2001
(IN THOUSANDS)

	PARENT	SUBSIDIARY GUARANTORS	NON-GUARANTOR SUBSIDIARIES	EL
ASSETS:				
Cash and cash equivalents	$ 7,670	$ (953)	$ 4,044	$
Accounts receivable, net	--	69,048	2,277	
Other current assets	1,713	13,009	(1,182)	
Total current assets	9,383	81,104	5,139	
Property and equipment, net	1,954	54,571	3,814	
Investment in subsidiaries	110,635	--	--	
Goodwill	--	28,510	--	
Intangible assets, net	--	67,800	1,783	
Other assets, net	17,379	13,201	87	
	$ 139,351	$ 245,186	$ 10,823	$
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT):				
Accounts payable and accrued expenses ...	$ 5,777	$ 25,612	$ 3,504	$
Current portion of long-term debt	232	4,659	573	
Other current liabilities	--	55	--	
Total current liabilities	6,009	30,326	4,077	
Long-term debt, net of current portion ..	184,905	5,964	819	
Other noncurrent liabilities	(96,039)	104,168	(1,162)	
Minority interests	--	--	1,182	
Stockholders' equity (deficit)	44,476	104,728	5,907	
	$ 139,351	$ 245,186	$ 10,823	$

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RADIOLOGIX, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATING STATEMENT OF INCOME (UNAUDITED)

FOR THE THREE MONTHS ENDED MARCH 31, 2002
(IN THOUSANDS)

SUBSIDIARY NON-GUARANTOR

	PARENT	GUARANTORS	SUBSIDIARIES
Service fee revenue	$ --	$ 67,025	$ 5,697
Costs and expenses:			
Salaries and benefits	--	19,777	759
Field supplies	--	4,012	293
Field rent and lease expense	--	7,576	502
Other field expenses	(180)	10,622	1,633
Bad debt expense	--	5,715	387
Corporate general and administrative	3,905	--	--
Depreciation and amortization	659	5,298	249
Interest expense, net	3,625	1,166	103
Total costs and expenses	8,009	54,166	3,926
Income (loss) before taxes, minority interest in consolidated subsidiaries and equity in earnings of investments	(8,009)	12,859	1,771
Equity in earnings of investments	--	1,121	--
Minority interests in consolidated subsidiaries	--	--	(361
Income (loss) before taxes	(8,009)	13,980	1,410
Income tax expense (benefit)	(3,204)	5,592	564
Net income (loss)	$ (4,805)	$ 8,388	$ 846

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RADIOLOGIX, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATING STATEMENT OF INCOME (UNAUDITED)

FOR THE THREE MONTHS ENDED MARCH 31, 2001
(IN THOUSANDS)

	PARENT	SUBSIDIARY GUARANTORS	NON-GUARANTOR SUBSIDIARIES
Service fee revenue	$ --	$ 61,007	$ 4,904
Costs and expenses:			
Salaries and benefits	--	17,805	624
Field supplies	--	3,551	291
Field rent and lease expense	--	7,628	600
Other field expenses	--	9,926	1,505
Bad debt expense	--	6,025	381
Corporate general and administrative	2,970	--	--
Depreciation and amortization	532	4,885	186
Interest expense, net	3,252	1,122	26
Total costs and expenses	6,754	50,942	3,613
Income (loss) before taxes, minority	(6,754)	10,065	1,291

interest in consolidated subsidiaries and equity in earnings of investments			
Equity in earnings of investments	--	1,492	--
Minority interests in consolidated subsidiaries	--	--	(264)
Income (loss) before taxes	(6,754)	11,557	1,027
Income tax expense (benefit)	(2,702)	4,623	411
Net income (loss)	$ (4,052)	$ 6,934	$ 616

RADIOLOGIX, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS (UNAUDITED)

FOR THE THREE MONTHS ENDED MARCH 31, 2002
(IN THOUSANDS)

	PARENT	SUBSIDIARY GUARANTORS	NON-GUARANTOR SUBSIDIARIES
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ 3,053	$ 9,099	$ (1,357
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment, net	(1,075)	(1,860)	(52
Joint ventures	--	(63)	--
Other items	356	545	(56
Net cash used in investing activities	(719)	(1,378)	(108
CASH FLOWS FROM FINANCING ACTIVITIES:			
Payments on long-term debt	(6,235)	3,617	880
Due to/from parent/subsidiaries	5,840	(4,917)	(923
Other items	4,823	(4,970)	6
Net cash provided by (used in) financing activities	4,428	(6,270)	(37
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	6,762	1,451	(1,502
CASH AND CASH EQUIVALENTS, beginning of period	7,670	(953)	4,044
CASH AND CASH EQUIVALENTS, end of period	$ 14,432	$ 498	$ 2,542

RADIOLOGIX, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS (UNAUDITED)

FOR THE THREE MONTHS ENDED MARCH 31, 2001
(IN THOUSANDS)

	PARENT	SUBSIDIARY GUARANTORS	NON-GUARANTOR SUBSIDIARIES
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 4,988	$ 4,436	$ 1,402
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment, net	130	(2,276)	(171
Joint ventures	--	678	--
Other items	25	1,789	(12
Net cash provided by (used in) investing activities	155	191	(183
CASH FLOWS FROM FINANCING ACTIVITIES:			
Senior credit facility, net	3,000	--	--
Payments on long-term debt	--	(1,617)	(196
Due to/from parent/subsidiaries	8,704	(6,747)	(1,957
Other items	(3,676)	864	64
Net cash provided by (used in) financing activities	8,028	(7,500)	(2,089
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	13,171	(2,873)	(870
CASH AND CASH EQUIVALENTS, beginning of period	941	191	2,488
CASH AND CASH EQUIVALENTS, end of period	$ 14,112	(2,682)	$ 1,618

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

The following discussion of the results of operations and financial condition of the Company should be read in conjunction with the Company's consolidated financial statements and notes thereto included in the Annual Report on Form 10-K for the year ended December 31, 2001, and with the consolidated financial statements included in this Form 10-Q.

OVERVIEW

We are a leading national provider of diagnostic imaging services through our ownership and operation of free-standing, outpatient diagnostic imaging centers. We utilize sophisticated technology and technical expertise to perform a broad range of imaging procedures, such as magnetic resonance imaging (or MRI), computed tomography (or CT), positron emission tomography (or PET), nuclear medicine, ultrasound, mammography, bone densitometry (or DEXA), general radiography (or X-ray) and fluoroscopy. For the three months ended March 31, 2002, we derived 80% of our service fee revenue from the ownership, management and operation of our radiology and imaging center network and 20% of our service fee revenue from the administrative, management and information services provided to contracted radiology practices. As of March 31, 2002, we owned, operated or maintained an ownership interest in imaging equipment at 118 locations and provided management services to ten radiology practices. As of March 31, 2002, our imaging centers are located in 18 states, with concentrated geographic coverage in markets located in California, Florida, Kansas, Maryland, New York, Texas and Virginia.

We focus on providing quality patient care and service to ensure patient and referring physician satisfaction. Our development of comprehensive radiology networks permits us to invest in technologically advanced imaging equipment, including MRI, open MRI, spiral CT and PET. Our consolidation of diagnostic imaging centers into coordinated networks improves response time, increases overall patient accessibility, permits us to standardize certain customer relations procedures and permits us to develop "best practices" for our diagnostic imaging centers. We seek the input and participation of the contracted radiology practices to which we provide administrative, management and information services to develop best practices and to improve productivity and the quality of services. By focusing on further improving and, where appropriate, standardizing the operations of our diagnostic imaging centers, we believe that we can increase patient and referring physician satisfaction, which should lead to increased referrals and increased utilization of our diagnostic imaging centers.

We contract with radiology practices to provide professional services, including the supervision and interpretation of diagnostic imaging procedures performed in our diagnostic imaging centers. We believe that we do not engage in the practice of medicine nor do we employ physicians. The radiology practices maintain full control over the provision of professional radiological 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; and a willingness to embrace our strategy for the delivery of diagnostic imaging services.

Payment for diagnostic imaging services comes primarily from commercial third-party payors (62%), governmental payors (28% including Medicare and Medicaid) and private and other payors (10%). In August 2000, Medicare made significant changes in the reimbursement methodology for hospital outpatient services. We believe that we will have opportunities to increase the use of our diagnostic imaging services through additional joint venture or outsourcing arrangements with hospitals, in part because such federal healthcare regulatory changes favor outpatient centers that are managed or owned in joint venture or outsourcing arrangements with third parties. As of January 2002, Medicare decreased reimbursement rates for physician and outpatient services, including diagnostic imaging services. Our centers are principally dependent on our ability to attract referrals from primary care physicians, specialists and other healthcare providers. The referral often depends on the existence of a contractual arrangement with the referred patient's health benefit plan. For the three months ended March 31, 2002, approximately 9% of our revenue generated at our diagnostic imaging centers was generated from capitated arrangements.

Our service fee revenue is dependent upon the operating results of the contracted radiology practices and diagnostic imaging centers. Where state law allows, service fees due under the service agreements for the contracted radiology practices are derived from two distinct revenue streams: (1) a negotiated percentage (typically 20% to 30%) of the adjusted professional revenues as defined in the service agreements; and (2) 100% of the adjusted technical revenues as defined in the service agreements. In states where the law requires a flat fee structure, we have negotiated a base service fee, which is equal to the estimated fair market value of the services provided under the service agreements and which is renegotiated each year to equal the fair market value of the services provided under the service agreements. The fixed fee structure results in us receiving

substantially the same amount of service fee as we would have received under a negotiated percentage fee structure. Adjusted professional revenues and adjusted technical revenues are determined by deducting certain contractually agreed-upon expenses (non-physician salaries and benefits, rent, depreciation, insurance, interest and other physician costs) from the contracted radiology practices' revenue. Revenues of our subsidiary, Questar Imaging, Inc. ("Questar") are primarily derived from technical revenues generated from those imaging centers.

RESULTS OF OPERATIONS

We report the results of our operations through four designated regions of the United States: Mid-Atlantic, Northeastern, Central and Western regions. In addition, we report separately the results of our operations of the imaging centers of our subsidiary, Questar. Our operations in each of the four designated regions are comprised of the ownership and operation of diagnostic imaging centers and the provision of administrative, management and information services to the contracted radiology practices that provide professional interpretation and supervision services in connection with our diagnostic imaging centers and to hospitals and radiology practices with which we operate joint ventures. Our services leverage our existing infrastructure and improve radiology practice or joint venture profitability, efficiency and effectiveness. We have divided the operations into the four regions and Questar only for purposes of the division of internal management responsibilities, but do not focus on each of these regions as a separate product line or make financial decisions as if they were separate product lines. The Questar operations are treated as a separate group only from the perspective that the imaging centers of Questar do not have the same type of management service agreement with physicians as we have with the contracted radiology practices in the four designated regions. In addition, any imaging centers of Questar that are in the same region as the operations of the contracted radiology practices in the four designated regions are not included in the service agreements of the contracted radiology practices.

The operating margin for the Mid-Atlantic region of 30% for the three months ended March 31, 2001 increased to 32% in 2002. The increase in the operating margin is primarily attributable to the further growth in technical volume and, therefore, technical revenues, as well as management of operating expenses. The operating margin of the Northeastern region increased from 26% for the three months ended March 31, 2001 to 29% in 2002. The increase in the operating margin is primarily attributable to the growth in technical volume and, therefore, technical revenues and management of operating expenses. In addition, the operating margin increased partially as a result of higher reimbursement on a managed care contract and was also impacted by the higher fixed fee recognized at the New York practices compared to 2001. The operating margin for the Central region of 35% for the three months ended March 31, 2001 decreased to 32% in 2002. The decrease in the operating margin is primarily attributable to increased salary and lease costs in the Florida market offset by increased technical revenues in the Central region overall. The operating margin for the Western region increased from 20% for the three months ended March 31, 2001 to 26% in 2002. The increase in the operating margin is primarily attributable to increased technical revenues, higher reimbursement under a managed care contract, as well as management of operating expenses. The operating margin for Questar increased from 15% for the three months ended March 31, 2001 to 22% for the three months ended March 31, 2002. The increase in the operating margin is primarily attributable to improved collections which decreased the estimated contractual allowance and, therefore, increased the service fee revenue.

THREE MONTHS ENDED MARCH 31, 2001 COMPARED TO THREE MONTHS ENDED MARCH 31, 2002

Service Fee Revenue

Revenue of the contracted radiology practices and diagnostic imaging centers is recorded when services are rendered by the contracted radiology practices and diagnostic imaging centers based on established charges and reduced by contractual allowances and estimated bad debts. We use historical collection experience in estimating contractual allowances and bad debt expense. The factors influencing the historical collection experience include the contracted radiology practices' and diagnostic imaging centers' patient mix, impact of managed care contract pricing and contract revenue and the aging of patient accounts receivable balances. As these factors change, the historical collection experience is revised accordingly in the period known. Service fee revenue represents contracted radiology practices' and diagnostic imaging centers' revenue less amounts retained by contracted radiology practices. The amounts retained by contracted radiology practices represents amounts paid to the physicians pursuant to the service agreements between us and the contracted radiology practices. Under the service

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agreements, we provide each contracted radiology practice with the facilities and equipment used in its medical practice, assume responsibility for managing the operations of the practice, and employ substantially all of the non-physician personnel utilized by the contracted radiology practice. Although we assist in negotiating managed care contracts for the contracted radiology practices, we assume no risk under these arrangements.

The following table sets forth the amounts of revenue from the contracted radiology practices and diagnostic imaging centers and the amounts retained by contracted radiology practices (in thousands):

FOR THE THREE MONTHS ENDED
MARCH 31,

	2001	2002
Revenue from contracted radiology practices and diagnostic imaging centers, net of contractual allowances	$ 92,285	$ 99,529
Less: amounts retained by contracted radiology practices	(26,374)	(26,807)
Service fee revenue, as reported	$ 65,911	$ 72,722

Revenue from contracted radiology practices and diagnostic imaging centers, net of contractual allowances, increased $7.2 million, from $92.3 million in 2001 to $99.5 million in 2002. This increase was primarily due to increased technical revenues. Amounts retained by contracted radiology practices increased from $26.4 million in 2001 to $26.8 million in 2002. The increase in revenue from contracted radiology practices and diagnostic imaging centers, net of contractual allowances offset by the increase in amounts retained by contracted radiology practices, resulted in service fee revenue increasing $6.8 million, from $65.9 million in 2001 to $72.7 million, in 2002.

Salaries and Benefits

Salaries and benefits increased $2.1 million, from $18.4 million in 2001 to $20.5 million in 2002. As a percentage of service fee revenue, these costs remained comparable at 28.0% and 28.2% in 2001 and 2002, respectively.

Field Supplies

Field supplies increased $500,000, from $3.8 million in 2001 to $4.3 million in 2002. As a percentage of service fee revenue, these costs remained relatively constant at 5.8% and 5.9% in 2001 and 2002, respectively.

Field Rent and Lease Expense

Field rent and lease expense decreased $150,000, from $8.2 million in 2001 to $8.1 million in 2002. As a percentage of service fee revenue, these costs were 12.5% and 11.1% in 2001 and 2002, respectively. The decrease in the rent and lease expense is primarily attributable to the purchase in December 2001 of equipment previously held under operating leases.

Other Field Expenses

Other field expenses increased $700,000, from $11.4 million in 2001 to $12.1 million in 2002. However, as a percentage of service fee revenue, these costs decreased from 17.3% in 2001 to 16.6% in 2002.

Bad Debt Expense

Bad debt expense decreased $300,000, from $6.4 million in 2001 to $6.1 million in 2002. As a percentage of service fee revenue, these costs were 9.7% and 8.4% in 2001 and 2002, respectively. Since service fee revenue represents contracted radiology practices' and diagnostic imaging centers' revenue less amounts retained by contracted radiology practices, these percentages are inherently at a higher stated value. Therefore, bad debt expense should be compared for 2001 and 2002 as a percentage of revenue of the contracted radiology practices and diagnostic imaging centers, net of contractual allowances, rather than as a percentage of service fee revenue. As a percentage of revenue of the contracted radiology practices and diagnostic imaging centers, bad debt expense was 6.9% and 6.1% in 2001 and 2002, respectively.

Corporate General and Administrative

Corporate general and administrative expenses increased $900,000, from $3.0 million in 2001 to $3.9 million in 2002. As a percentage of service fee revenue, these costs were 4.5% and 5.4% in 2001 and 2002, respectively. The increase in these costs is primarily due to the further development of our infrastructure at the corporate office during the latter part of 2001, including additional employees and associated employee benefits and incentive compensation.

Depreciation and Amortization

Depreciation and amortization expense increased $600,000, from $5.6 million in 2001 to $6.2 million in 2002. The increase in depreciation expense is primarily attributable to the purchase in December 2001 of equipment previously held under operating leases. As a percentage of service fee revenue, these costs were 8.5% in both 2001 and 2002.

Interest Expense, net

Interest expense, net, increased $500,000, from $4.4 million in 2001 to $4.9 million in 2002. The increase is due to higher interest costs associated with our senior notes issued in December 2001.

Income Tax Expense

Income tax expense of $2.3 million in 2001 and $3.0 million in 2002 were based on a 40% effective tax rate.

Net Income

Net income increased from $3.5 million in 2001 to $4.4 million in 2002. Net income as a percentage of service fee revenue was 6.1% in 2002, which increased from 5.3% in 2001.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity for the three months ended March 31, 2002, was derived principally from net cash proceeds from operating activities, as well as borrowings under our senior notes. As of March 31, 2002, we had net working capital of $60.7 million, including cash and cash equivalents of $17.5 million. We had current liabilities of $41.1 million, including current maturities of $5.3 million. For the three months ended March 31, 2002, we generated $10.8 million in net operating cash flow, invested $2.2 million and used cash of $1.9 million in financing activities.

Net cash from operating activities for the three months ended March 31, 2002 of $10.8 million remained constant compared to 2001. Increased collections of accounts receivable resulted in a decrease in accounts receivable days outstanding from 73 days at March 31, 2001 to 68 days at March 31, 2002, as well as the implementation of certain cash management strategies. The cash generated in 2002 includes the effect of higher interest costs paid in 2002 than in 2001.

Net cash used in investing activities for the three months ended March 31, 2002 was $2.2 million. Net cash provided by investing activities for the three months ended March 31, 2001 was $163,000. Purchases of property and equipment during the three months ended March 31, 2001 and 2002 were $2.3 million and $3.0 million, respectively.

Net cash flows used in financing activities for the three months ended March 31, 2001 and 2002 were $1.6 million and $1.9 million, respectively. At March 31, 2002, we had outstanding borrowings of $160 million under our senior notes, $19.2 million outstanding under our convertible debt obligations and an additional $11.2 million in other debt obligations.

In December 2001, we terminated our senior credit facility with proceeds from a $160 million senior notes ("Senior Notes") issuance, due December 15, 2008. In connection with the redemption, we recorded an extraordinary loss from the early extinguishment of our senior credit facility debt in the amount of $4.7 million, $2.8 million after tax. The Senior Notes bear interest at an annual rate of 10-1/2% payable semiannually in arrears on June 15 and December 15 of each year, commencing June 15, 2002. The Senior Notes are redeemable on or after December 15, 2005 at various redemption prices, plus accrued and unpaid interest to the date of redemption. The Senior Notes are unsecured obligations which rank senior in right of payment to all of our subordinated indebtedness and equal in right of payment with all other senior indebtedness. The Senior Notes are unconditionally guaranteed on a senior unsecured basis by certain restricted existing and future subsidiaries.

In addition to the Senior Notes issuance in December 2001, we entered into a credit facility whereby we can borrow up to $35 million. At March 31, 2002, no borrowings were outstanding under the credit facility. Under the credit facility, the interest rate is (i) an adjusted LIBOR rate, plus an applicable margin, which can vary from 3.0% to 3.5%, or (ii) the prime rate, plus an applicable margin, which can vary from 1.75% to 2.25%. In each case, the applicable margin varies based on financial ratios maintained by us. The credit facility includes certain restrictive covenants, including prohibitions on the payment of dividends, limitations on capital expenditures and the maintenance of certain financial ratios (including minimum fixed charge coverage ratio and maximum leverage ratio, as defined). Borrowings under the credit facility are secured by all service agreements to which we are a party, a pledge of the stock of our subsidiaries and all of our assets.

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 expense of new diagnostic imaging centers and the acquisition of additional centers and new diagnostic imaging equipment. To the extent we are unable to generate sufficient cash from our operations, funds are not available under our credit facility or we are unable to structure or obtain operating leases, we may be unable to meet our capital expenditure requirements. Furthermore, we may not be able to raise any necessary additional funds through bank financing or the issuance of equity or debt securities on terms acceptable to us, if at all.

Forward-Looking Statements

Throughout this report we make "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Forward-looking statements include words such as "may," "will," "would," "could," "likely," "estimate," "intend," "plan," "continue," "believe," "expect" or "anticipate" and other similar words and include all discussions about our acquisition and development plans. We do not guarantee that the transactions and events described in this report will happen as described or that any positive trends noted in this report will continue. The forward-looking statements contained in this report are generally located in the material set forth under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations", but may be found in other locations as well. These forward-looking statements generally relate to our plans, objectives and expectations for future operations and are based upon management's reasonable estimates of future results or trends. Although we believe that our plans and objectives reflected in or suggested by such forward-looking statements are reasonable, we may not achieve such plans or objectives. You should read this report completely and with the understanding that actual future results may be materially different from what we expect. We will not update forward-looking statements even though our situation may change in the future.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's exposure to market risk for changes in interest rates relates primarily to the Company's cash equivalents, Credit Facility, and its convertible notes.

PART II: OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

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

(b) Reports on Form 8-K. The registrant filed a Current Report on Form 8-K dated April 27, 2002, announcing its release of Arthur Andersen LLP as its independent auditors and its appointment of Ernst & Young LLP as independent auditors for 2002.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

RADIOLOGIX, INC.

Date: May 14, 2002

/s/ MARK L. WAGAR

Mark L. Wagar
Chairman of the Board and

Chief Executive Officer
(Principal Executive Officer)

Date: May 14, 2002

/s/ SAMI S. ABBASI

Sami S. Abbasi
Chief Financial Officer and
Executive Vice President
(Principal Accounting Officer)

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INDEX TO EXHIBITS

EXHIBIT NUMBER	DESCRIPTION
3.1	Restated Certificate of Incorporation of American Physician Partners, Inc.***
3.2	Amended and Restated Bylaws of American Physician Partners, Inc.***
3.3	Amendment to Restated Certificate of Incorporation of American Physician Partners, Inc. (Incorporated by reference to Exhibit 3.3 to the registrant's Form 10-Q for the quarter ended June 30, 1999)
3.4	Amendment to Restated Bylaws of American Physician Partners, Inc. (Incorporated by reference to Exhibit 3.4 to the registrant's Form 10-Q for the quarter ended June 30, 1999)
4.1	Form of certificate evidencing ownership of Common Stock of American Physician Partners, Inc.**
4.2	Securities Purchase Agreement dated as of August 3, 1999 by and between American Physician Partners, Inc. and BT Capital Partners SBIC, L.P. @ (see Exhibit 4.1 thereof)
4.3	Convertible Junior Subordinated Promissory Note dated August 1, 1999 issued to BT Capital Partners SBIC, L.P. @ (see Exhibit 4.2 thereof).
4.4	Indenture dated as of December 12, 2001, among Radiologix, Inc., as Issuer, its subsidiaries identified in the Indenture, as Guarantors, and U.S. Bank, N.A., as Trustee, with respect to $160 Million 10-1/2% Senior Notes due December 15, 2008. (Incorporated by reference to Exhibit 4.4 to the registrant's annual report on Form 10-K for 2001).
4.5	Registration Rights Agreement dated December 12, 2001, among Radiologix, Inc., as Issuer, its subsidiaries identified in the Registration Rights Agreement, as Guarantors, and Jefferies & Company, Inc. and Deutsche Banc Alex. Brown Inc., as Initial Purchasers, with respect to $160 Million

	10-1/2% Senior Notes due December 15, 2008 (Incorporated by reference to Exhibit 4.5 to the registrant's annual report on Form 10-K for 2001).
10.36	Amendment Number 3 to Employment Agreement between Radiologix, Inc. and Mark L. Wagar dated as of February 11, 2002.*
10.37	Amendment Number 4 to Employment Agreement between Radiologix, Inc. and Mark S. Martin dated as of February 11, 2002.*
10.38	Amendment Number 1 to Employment Agreement between Radiologix, Inc. and Sami S. Abbasi dated as of February 11, 2002.*
10.39	Amendment Number 4 to Employment Agreement between Radiologix, Inc. and Paul M. Jolas dated as of February 11, 2002.*

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* Filed herewith.

** Incorporated by reference to Exhibits 4.1, 10.1, 10.3 and 10.5 through 10.19, respectively, to the registrant's Registration Statement No. 333-31611 on Form S-4.

*** Incorporated by reference to the corresponding Exhibit number to the registrant's Registration Statement No. 333-30205 on Form S-1.

@ Incorporated by reference to Exhibits 2.1, 4.1 and 4.2, respectively, to the Registrant's Form 8-K filed on August 3, 1999.