

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

RadNet, Inc.
Form 10-K
April 01, 2008

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, 2007

COMMISSION FILE NUMBER 0-19019

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

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

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

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

90025
(ZIP CODE)

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

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 [X]

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 [X] 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. [X]

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.

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

Large Accelerated Filer
Non-Accelerated Filer (Do not check if a smaller reporting company)
Accelerated Filer
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 \$190,029,896 on June 30, 2007 (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, 2007.

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

The number of shares of the registrant's common stock outstanding on March 31, 2008, was 35,639,558 shares (excluding treasury shares).

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following documents are herein incorporated by reference into the Part of the Form 10-K indicated.

| Document ----- | Where Incorporated ----- |
|---|-----------------------------|
| Proxy Statement for the 2008 Annual Meeting of Shareholders | Part III |

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 | 31 |
| Item 2. Properties | 31 |
| Item 3. Legal Proceedings | 31 |
| Item 4. Submission of Matters to a Vote of Security Holders | 32 |
| PART II. | |
| Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities | 32 |
| Item 6. Selected Financial Data | 34 |
| Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations | 35 |
| Item 7A. Quantitative and Qualitative Disclosures About Market Risk | 51 |
| Item 8. Financial Statements and Supplementary Data | 51 |
| Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure | 79 |
| Item 9A. Controls and Procedures | 79 |
| Item 9B. Other Information | 83 |
| PART III. | |
| Item 10. Directors and Executive Officers of the Registrant | 83 |

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

| | |
|---|----|
| Item 11. Executive Compensation | 83 |
| Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters | 83 |
| Item 13. Certain Relationships and Related Transactions | 83 |
| Item 14. Principal Accountant Fees and Services | 83 |
| PART IV. | |
| Item 15. Exhibits, Financial Statement Schedules | 84 |

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 141 diagnostic imaging facilities located in six states with operations primarily in California, the Mid Atlantic, the Treasure Coast area of Florida, Kansas and the Finger Lakes (Rochester) and Hudson Valley areas of New York, providing diagnostic imaging services including magnetic resonance imaging, 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

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

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 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 16% 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 77 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 twelve months ended December 31, 2007, we performed 2,709,502 diagnostic imaging procedures and generated net revenue from continuing operations of \$425.5 million.

The following table illustrates our work performed over the five-year period ended December 31, 2007:

| | Years Ended October 31, | | | Year Ended December 31, | |
|---|----------------------------|---------|---------|----------------------------|-----------|
| | 2003 | 2004 | 2005 | 2006 | 2007 |
| Total number of MRI, CT and PET systems | 63 | 68 | 68 | 74 | |
| Total number of procedures performed* | 947,032 | 946,928 | 958,414 | 919,342 | 2,709,502 |

* All procedures. Excludes discontinued operations.

** Excludes procedures of unconsolidated joint ventures.

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

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 its website as soon as is reasonably practicable after the material is electronically filed with the Securities and Exchange Commission.

-3-

RADIOLOGIX ACQUISITION

On November 15, 2006, we completed the acquisition of Radiologix, Inc. Radiologix, a Delaware corporation, 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 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.

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.

IMV, a provider of database and market information products and services to the analytical, clinical diagnostic, biotechnology, life science and medical imaging industries, estimates that over 24.2 million MRI procedures and 50.1 million CT procedures were conducted in the United States in 2003, representing a 10% increase over the 2002 volume of both the MRI and CT procedures,

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

respectively. This data is particularly relevant to us, given that revenue from MRI and CT scans constituted approximately 58% of our net revenue for the 12 months ended December 31, 2007. In addition, IMV estimates that over 706,100 clinical PET patient studies were performed in the United States in 2003, representing a 58% increase over the 2002 volume of 447,200 clinical PET patient studies. Revenue from PET scans constituted approximately 7% of our net revenue for the year ended December 31, 2007.

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:

- 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.

-4-

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

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

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 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 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.

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

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 99 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 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 62 CT systems in operation.

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 20 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 29 nuclear medicine systems in operation.

X-RAY

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

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 164 ultrasound systems in operation.

-6-

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 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 109 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 77 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 141 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. The additional Radiologix centers reflect, for the most part, a similar clustering philosophy, which we believe will provide an opportunity to utilize our California model outside of California.

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

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

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.

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.

-7-

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

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

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, 2007.

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.

-8-

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

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

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

Following our Radiologix acquisition 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 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.

-9-

BRMG

At 77 of our facilities, BRMG is our contracted radiology group. At December 31, 2007, BRMG employed 45 full-time and seven 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, 2007, 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 first refusal to provide the space and services for the facility under the same terms and conditions set forth in the management agreement.

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

- 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 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 six 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. 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 specific thresholds.

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.

-10-

Under our comprehensive services model, we have the right to terminate each agreement if the radiology practice or a physician of the contracted

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

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 | |
|--------------------------------------|---------------------------------------|---------------------------------|
| | TWO MONTHS ENDED DECEMBER 31, 2006 | YEAR ENDED DECEMBER 31, 2007 |
| Insurance (1) | 52% | 57% |
| Managed Care Capitated Payors | 14% | 15% |
| Medicare/Medicaid | 25% | 22% |
| Other (2) | 7% | 2% |
| Workers Compensation/Personal Injury | 2% | 4% |

(1) Includes Blue Cross/Blue Shield, which represented 18% of our net revenue for the two months ended December 31, 2006, and 19% of our net revenue for the year ended December 31, 2007.

(2) Includes co-payments, direct patient payments and payments through contracts with physician groups and other non-insurance company payors.

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

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

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.

-11-

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:

|X| 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.

|X| 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.

|X| 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.

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

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.

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 85 fixed-site, freestanding outpatient diagnostic imaging facilities in California, 33 in the Baltimore-Washington, D.C. area and 18 in the Rochester and Hudson Valley areas of New York as well as one to three individual facilities each in Florida and Kansas. We lease the premises at which these facilities are located, with the exception of two facilities located in buildings we own. We lease the land on which both of those buildings are located.

-12-

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, 2007:

| | YEAR ENDED DECEMBER | | | |
|--|---------------------|------|------|------|
| | 2003 | 2004 | 2005 | 2006 |
| Total facilities owned or managed (at beginning of year) | 59 | 56 | 56 | 56 |
| Facilities added by: | | | | |
| Acquisition* | -- | -- | -- | -- |
| Internal development | 3 | 3 | 1 | 1 |
| Facilities closed or sold | (6) | (3) | -- | -- |
| Total facilities owned (at end of year) | 56 | 56 | 57 | 57 |

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

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

DIAGNOSTIC IMAGING EQUIPMENT

The following table indicates, as of December 31, 2007, the quantity of principal diagnostic equipment available at our facilities, by region:

| | MRI | Open MRI | CT | PET/CT | Mammography | Ultra Sound | X-ray | Medicine |
|--------------|-----------|-----------|-----------|-----------|-------------|-------------|------------|-----------|
| Kansas | 0 | 0 | 1 | 0 | 0 | 1 | 5 | 0 |
| California | 36 | 25 | 30 | 13 | 60 | 90 | 109 | 13 |
| Florida | 2 | 1 | 3 | 1 | 3 | 4 | 4 | 2 |
| New York | 13 | 2 | 11 | 0 | 15 | 25 | 23 | 2 |
| Maryland | 14 | 6 | 17 | 6 | 31 | 44 | 48 | 12 |
| Total | 65 | 34 | 62 | 20 | 109 | 164 | 189 | 29 |

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

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.

In July 2007, we acquired the assets and business of Borg Imaging Group located in Rochester, NY for \$11.7 million in cash plus the assumption of approximately \$2.4 million of debt. Borg was the owner and operator of six imaging centers, five of which are multimodality, offering a combination of MRI, CT, X-ray, Mammography, Fluoroscopy and Ultrasound. After combining the Borg centers with RadNet's existing centers in Rochester, New York, RadNet has a total of 11 imaging centers in Rochester. The leased facilities associated with these centers includes a total monthly rental of approximately \$71,000 per month. Approximately \$9.2 million of goodwill was recorded with respect to this transaction. Also, \$1.4 million was recorded for the fair value of covenant not to compete contracts.

-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 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

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

to these three locations joined BRMG. The leased facilities associated with these centers includes a total monthly rental of approximately \$18,000. Approximately \$2.8 million of goodwill was recorded with respect to this transaction. Also, \$150,000 was recorded for the fair value of a covenant not to compete contract.

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.

Divestitures

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

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

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

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

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

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, 2007, we employed the following personnel (including employees of BRMG):

-14-

We employ a site manager who is responsible for overseeing day-to-day and routine operations at each of our facilities, including staffing, modality and schedule coordination, referring physician and patient relations and purchasing of materials. In turn, our 10 regional managers and directors are responsible for oversight of the operations of all facilities within their region, including sales, marketing and contracting. 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. | 63 | 1992 | President and Chief Executive Officer |
| John V. Crues, III, M.D. | 58 | 2000 | Medical Director |
| Stephen M. Forthuber | 46 | 2006 | Executive Vice President and Chief Operating Officer- Eastern Operations |
| Norman R. Hames | 51 | 1996 | Executive Vice President, Secretary, Chief Operating Officer-Western Operations |
| Jeffrey L. Linden | 65 | 2001 | Executive Vice President and General Counsel |
| Mark D. Stolper | 36 | 2004 | Executive Vice President and Chief Financial Officer |

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

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

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.

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.

-15-

Jeffrey L. Linden joined us in 2001 and currently serves as our Executive Vice President and General Counsel. He is also associated with Cohen & Lord, a professional corporation, outside general counsel to us. 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 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

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

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, five territory sales managers and 18 customer service representatives. Our eastern marketing team consists of 27 customer sales representatives and three sales managers who each report to a district manager. Our marketing team employs 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 games of the Lakers, Clippers, Kings, Avengers and Sparks held at the Staples Center in Los Angeles, Ducks 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

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

involving the use of capital leases with purchase options at minimal prices at the end of the lease term. At December 31, 2007, capital lease obligations, excluding interest, totaled approximately \$32.0 million through 2012, including current installments totaling approximately \$9.5 million (see Note 9). If we open or acquire additional imaging facilities, we may have to incur material capital lease obligations.

-16-

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 reading service revenue to obtain adjusted net revenue.

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

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

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.

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.

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

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

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 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 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, 2007, approximately 22% 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

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

services covered by such programs as prohibited by statute.

-18-

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

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

liability under any such laws could have a material adverse effect on our business, financial condition and results of operations.

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 recently 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

-19-

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 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

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

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 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.

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

An important part of our compliance program consists of conducting periodic audits of various aspects of our operations and that of the contracted radiology practices. We also conduct mandatory educational programs designed to familiarize our employees with the regulatory requirements and specific elements of our compliance program.

-20-

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.

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

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

compliance in all material respects with applicable federal, state and local 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.

We believe the implementation of the reimbursement reductions contained in the DRA will have a significant adverse effect on our business, financial condition and results of operations.

-21-

ITEM 1A. RISK FACTORS

RISKS RELATING TO OUR BUSINESS

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

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

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 \$18.1 million, \$11.0 million, and \$6.9 million for the year ended December 31, 2007, the two months ended December 31, 2006, and the year ended October 31, 2006, respectively. We had a stockholders' deficit of \$69.8 million, \$47.0 million, and \$78.8 million at December 31, 2007, 2006, and October 31, 2006, respectively. Also, in recent periods, we have suffered liquidity shortfalls which have led us to, among other things, undertake and complete a "pre-packaged" Chapter 11 plan of reorganization and in 2003 modify the terms of various of our financial obligations. While we believe that by taking these and other actions 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.

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 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

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

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.

-22-

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 77 of our 85 California facilities with the balance of our other facilities 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

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

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.

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

- o Identify attractive and willing candidates for acquisitions;
- 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;

-23-

- 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

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

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 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.

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.

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.

-24-

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

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

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 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

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

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 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, 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.

-25-

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 2007 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

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

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 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.

OUR ACTUAL FINANCIAL RESULTS MAY VARY SIGNIFICANTLY FROM THE PROJECTIONS WE FILED WITH THE BANKRUPTCY COURT.

In connection with our "pre-packaged" Chapter 11 plan of reorganization that was confirmed by the Bankruptcy Court on October 20, 2003, we were required to prepare projected financial information to demonstrate to the Bankruptcy Court the feasibility of the plan of reorganization and our ability to continue operations upon our emergence from bankruptcy. As indicated in the disclosure statement with respect to the plan of reorganization and the exhibits thereto, the projected financial information and various estimates of value discussed therein should not be regarded as representations or warranties by us or any other person as to the accuracy of that information or that those projections or valuations will be realized. We, and our advisors, prepared the information in the disclosure statement, including the projected financial information and estimates of value. This information was not audited or reviewed by our independent accountants. The significant assumptions used in preparation of the information and estimates of value were included as an exhibit to the disclosure statement.

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

Those projections are not included in this report and you should not rely upon them in any way or manner. We have not updated, nor will we update, those projections. At the time we prepared the projections, they reflected numerous assumptions concerning our anticipated future performance with respect to prevailing and anticipated market and economic conditions which were and remain beyond our control and which may not materialize. Projections are inherently subject to significant and numerous uncertainties and to a wide variety of significant business, economic and competitive risks and the assumptions underlying the projections may be wrong in many material respects. Our actual results may vary significantly from those contemplated by the projections. As a result, we caution you not to rely upon those projections.

WE ARE VULNERABLE TO EARTHQUAKES AND OTHER NATURAL DISASTERS.

Our headquarters and 85 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;
- 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 - Government Regulation."

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

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.

-27-

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, 2007, approximately 22% 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 from patients covered by Medicare.

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

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

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 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:

-28-

- |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.

WE HAVE INEFFECTIVE INTERNAL CONTROL OVER FINANCIAL REPORTING THAT IF UNSUCCESSFULLY REMEDIATED COULD ADVERSELY AFFECT OUR ABILITY TO REPORT OUR FINANCIAL RESULTS ON A TIMELY AND ACCURATE BASIS.

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

The following material weaknesses were identified in our internal control over financial reporting as of December 31, 2007:

VALUATION OF ACCOUNTS RECEIVABLE

We have determined that our methodology for determining the net realizable value of accounts receivable was inadequate and we recorded a post closing adjustment of \$8.5 million to reduce accounts receivable to the revised estimated net realizable value at December 31, 2007. Our analysis overvalued accounts sent to collection and did not factor in a reduction of the expected collection percentages as the accounts age. The run-out of 2006 accounts receivable, which was our primary tool with which we analyzed the collectability of accounts receivable, indicated an overvaluation of our 2006 accounts receivable. The results of the run-out analysis was not considered in our initial analysis of the net realizable value of accounts receivable.

FINANCIAL STATEMENT CLOSE PROCESS

We have determined that our financial statement close process is flawed. There is not a sufficient review of the financial statements or underlying reconciliations and account analyses prior to the closing of our books as is evidenced by the number of errors noted and material post closing adjustments recorded. For example, in addition to the material adjustment in accounts receivable noted above, other adjustments recorded include (1) a failure to record a non-cash accrual for a \$600,000 bonus due to the our COO upon his future exercising of his warrants; the recording of this accrual should have been recorded upon vesting of his stock options in Q1 2007; (2) a missed recording of the settlement of a litigation matter for \$120,000, and (3) the misstatement of the amortization of deferred financing cost by approximately \$300,000 because we used an inaccurate amortization period.

FIXED ASSET RECORDING

We have concluded that we do not have an adequate process to determine the appropriate date that an asset is placed in service. Our method has been to record assets as placed in service based on the date an invoice is paid. This has resulted in both the overstatement and understatement of depreciation, and the understatement of fixed assets and accounts payable at applicable balance sheet dates. As a result, we recorded an adjustment to increase depreciation expense by approximately \$1.2 million for the year ended December 31, 2007. Prior to recording an adjustment, fixed assets and accounts payable were understated by \$4.3 million as of December 31, 2007.

LIABILITY FOR MEDICAL MALPRACTICE EXPOSURE

We have determined that we do not have appropriate control activities in place to account for our exposure to incurred but not reported malpractice claims (IBNR or the tail liability). We have a claims made medical malpractice insurance policy. We record a reserve for our portion of reported claims based on the policy deductible. However, based on the guidance in the American Institute of Certified Public Accountants' (AICPA's) Healthcare Audit Guide, Chapter 8, we should have been recording a reserve to account for our exposure to IBNR. Prior to recording an adjustment, the understatement of the medical malpractice liability as of December 31, 2007 was approximately \$1.7 million, and the expense for medical malpractice insurance was understated by approximately \$170,000 for the year ended December 31, 2007.

ENTITY LEVEL CONTROLS

We have determined that we do not have adequate entity level controls in place as is evidenced by the number of material weaknesses noted above. We

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

believe that the lack of adequate entity level controls is manifested in the lack of accounting personnel who are familiar with U.S. generally accepted accounting principles (GAAP), and the fact that the overall review process did not detect any of the accounting errors noted above, none of which involve complex accounting rules or involve an estimation process, except for the determination of the net realizable value of accounts receivable.

-29-

Our Remediation Initiatives

VALUATION OF ACCOUNTS RECEIVABLE

We have formed a Revenue Committee, which includes the participation of the Chief Executive Officer, Chief Financial Officer, Director of Reimbursement Operations and other financial personnel. The Committee will meet every month to review the collection statistics applied to monthly and year-to-date gross charges as well as review the collectability of accounts receivable balances as of the end of each month. The Committee will review and analyze collection run-out statistics and compare the cash collections to historical data and trends. We believe that collection patterns and anomalies will be identified more quickly and appropriate adjustments will be made in a more timely manner to establish the accurate net realizable value of accounts receivable balances. Furthermore, we have assigned additional personnel and other resources to review, monitor and analyze billing and collection performance.

FINANCIAL STATEMENT CLOSE PROCESS

Our planned remediation includes:

- i) Implementing processes and procedures to perform the necessary analysis, critical review, approval, and reconciliation of journal entries and account balances;
- ii) Hiring additional accounting personnel with strong GAAP accounting knowledge;
- iii) Establishing a more comprehensive financial statement close-list, with pre-assigned roles and responsibilities for the completion of each item on the list;
- iv) Establishing procedures for period end cut-offs, including, but not limited to, identifying and recognizing all incurred liabilities and the recording of assets;
- v) Increasing supervisory review of the consolidation process in anticipation of implementing an automated consolidation process;
- vi) Developing a more formalized process for the identification of subsequent events and complex or unusual transactions; and
- vii) Establishing monthly communications between finance and accounting personnel and representatives from the purchasing, legal and operations level managers to identify and quantify potential unrecorded liabilities and fixed assets.

FIXED ASSET RECORDING

We will assign additional resources to track, record and depreciate fixed assets. We will schedule monthly meetings with the purchasing department and

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

monthly calls with the regional controllers to identify assets when they are delivered to sites and record their correct in-service dates. We will focus on recording assets and depreciating them in the month when they placed in-service. Additionally, we will record expenses related to progress payments to vendors in the period in which services are rendered so as to keep accurate balances of Construction-in-Progress accounts.

LIABILITY FOR MEDICAL MALPRACTICE EXPOSURE

We will engage a third-party actuary to determine the IBNR as of the end of each reporting period. Accordingly, we will use the results of each actuarial study to adjust our IBNR reserve as of the end of each period.

ENTITY LEVEL CONTROLS

We will seek to add resources with GAAP accounting knowledge at the entity level. Additionally, we will assign senior level oversight and review to entity prepared trial balances and financial statements to insure that accounting errors are detected and corrected prior to the corporate-level consolidation process.

-30-

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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 between April 2007 and January 2018. 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 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 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

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

DVI loans on the centers were delinquent. Plaintiffs argue that we should have known that DVI was engaging in fraudulent practices to conceal losses, and our alleged "lack of due diligence" in investigating DVI's finances in the course of these acquisitions amounted to complicity in deceptive and misleading practices.

We have answered the complaint. The matter is still in its discovery stage, tentatively intended to terminate in May 2008. Upon its termination we intend to seek a summary judgment pursuant to the decision in a recently released U.S. Supreme Court case. We intend to vigorously contest the allegations.

(b) Fleet Nat'l Bank v. Boyle et. al., U.S. District Court for the Eastern District of Pennsylvania, Docket No. 04-CV-1277

This case is related to In re DVI Securities Litigation, but was filed by several of DVI's lenders. It, too, arises from the DVI bankruptcy (referenced in the matter above) and was brought against DVI officers and directors and a number of third party defendants, including us.

The plaintiff alleges violations of the Racketeering Influenced and Corrupt Organizations Act, 18 U.S.C. 1961 et seq., ("RICO"), and common-law claims, including conspiracy to commit fraud, tortious interference with a contract, conspiracy to commit tortious interference with a contract, conspiracy to commit conversion and aiding and abetting fraud. 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.

We filed a motion to dismiss the complaint that was granted as to all claims except the RICO claim. In an effort to end our legal expenses with respect to this action we agreed to pay \$120,000 in full and final settlement. The settlement is subject to court approval, which we anticipate receiving within the next few months. We accrued \$120,000 as of December 31, 2007 for this settlement which is included in operating expenses in our Statement of Operations for the year ended December 31, 2007.

(c) Siemens Medical Solutions USA, Inc. v. Radiologix, Inc., 192nd Judicial District, Dallas County, Case No. 07-01245.

The action, filed February 12, 2007, arose out of Radiologix notifying Siemens of its revocation of certain equipment purchase orders. Siemens contended there was a breach of contract and sought unspecified damages. This complaint was terminated by Siemens in late 2007.

(d) In the Matter of the Arbitration Between St. Paul Radiology and Questar Duluth, Inc. AAA Case No. 33-193Y00282-07.

-31-

In connection with our sale of our Duluth, Minnesota imaging center assets in June 2007 we received a demand for arbitration from the radiologists providing professional services at the center stating they were entitled to at least \$1.2 million of the \$1.3 million paid to us for the imaging center assets. We believe the claim is without merit in that our contract with the radiologists is clear in providing ownership rights to us and we have denied the claim. We intend to vigorously contest the claim. It is anticipated the matter will be determined by arbitration in June 2008.

GENERAL

We are engaged from time to time in the defense of lawsuits arising out of

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

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.

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 our reverse one-for-two stock split effected in November 2006 and 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, 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 |
| December 31, 2006 | 2.13 | 5.15 |
| September 30, 2006 | 1.45 | 2.90 |
| June 30, 2006 | 0.51 | 1.99 |
| March 31, 2006 | \$0.25 | \$0.59 |

The last low and high prices for our common stock on the NASDAQ Global Market on March 31, 2008 were \$6.00 and \$7.19 respectively. As of March 31, 2008, 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 4,013.

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 2002 to 2007 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 January 1, 2002 in the Common Stock and in each of the foregoing indices and the reinvestment of dividends through January 1, 2008. 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 2006 or 2007 and we do not expect to pay any dividends in the foreseeable future.

-32-

[PERFORMANCE GRAPH]

| COMPANY / INDEX | ANNUAL RETURN PERCENTAGE YEARS ENDED | | | | TWO MONTHS ENDED |
|------------------------|---|----------|----------|----------|---------------------|
| | 10/31/03 | 10/29/04 | 10/31/05 | 10/31/06 | 12/29/06 |
| RADNET, INC. | -38.75 | 14.29 | -33.93 | 594.59 | -10.12 |
| S&P 500 INDEX | 20.80 | 9.42 | 8.72 | 16.34 | 3.33 |
| S&P HEALTH CARE SECTOR | 5.92 | 1.76 | 9.57 | 11.36 | 0.91 |

| COMPANY / INDEX | BASE PERIOD 10/31/02 | INDEXED RETURNS YEARS ENDED | | | | TWO MONTHS ENDED |
|------------------------|----------------------------|--------------------------------|----------|----------|----------|---------------------|
| | | 10/31/03 | 10/29/04 | 10/31/05 | 10/31/06 | 12/29/06 |
| RADNET, INC. | 100 | 61.25 | 70.00 | 46.25 | 321.25 | 288.75 |
| S&P 500 INDEX | 100 | 120.80 | 132.18 | 143.71 | 167.19 | 172.76 |
| S&P HEALTH CARE SECTOR | 100 | 105.92 | 107.78 | 118.09 | 131.51 | 132.71 |

RECENT SALES OF UNREGISTERED SECURITIES

During the fiscal year ended December 31, 2007, 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 January 2007, we issued to a radiologist in order to induce him to accept employment with BRMG, a five-year warrant exercisable at a price of \$4.79 per share, which was the public market closing price for our common stock on the transaction date, to purchase 500,000 shares of our common stock.

-33-

- o In January 2007, we issued to one of our key employees a five-year warrant exercisable at a price of \$4.74 per share, which was the public market closing price of our common stock on the transaction date, to purchase 250,000 shares of our common stock.
- o In February 2007, we issued to each of our four independent directors five-year warrants exercisable at \$5.99 per share, which was the public market price closing price for our common stock on the transaction date, for each to purchase 25,000 shares of our common stock.
- o In April 2007, we issued to four of our key employees five-year warrants exercisable at a price of \$5.88 per share, which was the public market closing price for our common stock on the transaction date, to purchase 250,000 shares, 150,000 shares, 150,000 shares and

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

50,000 shares, respectively, of our common stock.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following table sets forth our selected historical consolidated financial data. The selected consolidated statements of operations data set forth below for the years ended December 31, 2007, October 31, 2006 and 2005, the two months ended December 31, 2006, and the consolidated balance sheet data as of December 31, 2007 and 2006, and October 31, 2006, 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, 2004 and 2003, and the consolidated balance sheet data set forth below as of October 31, 2005, 2004 and 2003 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 are not reflected 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.

-34-

| | YEARS ENDED DECEMBER 31, | | TWO MONTHS ENDED DECEMBER 31, | | | |
|-------------------------------|--|-----------|----------------------------------|-----------|-----------|-----------|
| | 2007 | 2006 | 2006 | 2005 | 2006 | 2005 |
| | (UNAUDITED) | | (UNAUDITED) | | | |
| | (DOLLARS IN THOUSANDS, EXCEPT PER SHARE) | | | | | |
| Statement of Operations Data: | | | | | | |
| Net revenue | \$425,470 | \$192,859 | \$ 57,374 | \$ 22,520 | \$161,005 | \$145,000 |
| Operating expenses: | | | | | | |
| Operating expenses | 330,550 | 147,226 | 46,033 | 19,149 | 120,342 | 109,000 |
| Depreciation and amortization | 45,281 | 19,542 | 5,907 | 2,759 | 16,394 | 17,000 |
| Provision for bad debts | 27,467 | 10,707 | 3,907 | 826 | 7,626 | 4,000 |

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

| | | | | | | |
|---|----------|----------|----------|--------|---------|-----|
| Loss (gain) on disposal of equipment, net | 72 | 335 | (38) | - | 373 | |
| Gain from sale of joint venture interests | (1,868) | - | - | - | - | |
| Loss from continuing operations | (18,131) | (17,722) | (10,983) | (155) | (6,894) | (3) |
| Income from discontinued operation | - | - | - | - | - | |
| Net loss | (18,131) | (17,722) | (10,983) | (155) | (6,894) | (3) |
| Basic and diluted loss per share | (0.52) | (0.57) | (0.35) | (0.01) | (0.33) | (0) |

Balance Sheet Data:

| | | | | | | |
|-----------------------------|----------|----------|----------|-----------|----------|-------|
| Cash and cash equivalents | \$ 18 | \$ 3,221 | \$ 3,221 | \$ 2 | \$ 2 | \$ |
| Total assets | 433,620 | 394,766 | 394,766 | 119,112 | 131,636 | 117 |
| Total long-term liabilities | 428,743 | 381,903 | 381,903 | 23,586 | 179,288 | 23 |
| Total liabilities | 503,450 | 441,762 | 441,762 | 189,725 | 210,430 | 191 |
| Working capital (deficit) | 23,180 | 31,230 | 31,230 | (141,586) | 2,896 | (143) |
| Stockholders' deficit | (69,830) | (46,996) | (46,996) | (70,613) | (78,794) | (74) |

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

OVERVIEW

We operate a group of regional networks comprised of 141 diagnostic imaging facilities located in seven states with operations primarily in California, the Mid-Atlantic, the Treasure Coast area of Florida, Kansas and the Finger Lakes (Rochester) and Hudson Valley areas of New York, providing diagnostic imaging services including magnetic resonance imaging (MRI), computed tomography (CT), positron emission tomography (PET), nuclear medicine, mammography, ultrasound, diagnostic radiology, or X-ray, and fluoroscopy. The Company's operations comprise a single segment for financial reporting purposes.

The results of operations of Radiologix and its wholly-owned subsidiaries have been included in the consolidated financial statements from the date of acquisition, November 15, 2006. 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., Diagnostic Imaging Services, Inc. (DIS), and Radiologix, Inc., all wholly owned subsidiaries of RadNet Management.

Howard G. Berger, M.D. is our President and Chief Executive Officer, a member of our Board of Directors and owns approximately 16% of our outstanding common stock. Dr. Berger also owns, indirectly, 99% of the equity interests in BRMG. BRMG provides all of the professional medical services at 77 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 eight former Radiologix centers in California and at all of the former Radiologix centers which are located outside of California, we have entered into long-term contracts with

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

prominent radiology groups in the area to provide physician services at those facilities. The operations of BRMG are consolidated with us as a result of the contractual and operational relationship among BRMG, Dr. Berger, and us. We are considered to have a controlling financial interest in BRMG pursuant to the guidance in Emerging Issues Task Force Issue 97-2 (EITF 97-2). BRMG is a partnership of Pronet Imaging Medical Group, Inc. and Beverly Radiology Medical Group, both of which are 99%-owned by Dr. Berger. RadNet provides non-medical, technical and administrative services to BRMG for which it receives a management fee (see "BRMG" for a discussion of our management agreement with BRMG).

-35-

Through our wholly-owned subsidiary, Radiologix, we contract with radiology practices to provide professional services, including supervision and interpretation of diagnostic imaging procedures, in our non-California diagnostic imaging centers and eight California centers. 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.

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. Through Radiologix we own the diagnostic imaging assets and, therefore, receive 100% of the technical reimbursements associated with imaging procedures. Our Radiologix subsidiary has 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 \$23.2 million, \$31.2 million, and \$2.9 million at December 31, 2007, December 31, 2006, and October 31, 2006, respectively. We had net losses of \$18.1 million, \$11.0 million, \$155,000, \$6.9 million, and \$3.6 million for the year ended December 31, 2007, the two months ended December 31, 2006 and 2005, and the years ended October 31, 2006 and 2005, respectively. We also had a stockholders' deficit of \$69.8 million, \$47.0 million, and \$78.8 million at December 31, 2007, 2006, and October 31, 2006, 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.

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

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

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 \$29.2 million, \$440,000 and \$10.3 million for the year ended December 31, 2007, the two months ended December 31, 2006 and the year ended October 31, 2006, respectively. The primary reason for the increase in 2007 was due to consolidation of Radiologix.

Cash used by investing activities for the year ended December 31, 2007 was \$45.9 million compared to cash used of \$13.5 million for the year ended October 31, 2006. For the year ended December 31, 2007, we purchased property and equipment for approximately \$27.2 million, acquired the assets and businesses of additional imaging facilities (see facility acquisitions and divestiture below) for approximately \$18.5 million, and increased our ownership interests in joint ventures that we initially acquired with Radiologix. We also generated cash of approximately \$3.9 million from the sale of imaging centers and a joint venture interest (see facility acquisitions and divestitures below).

Cash provided by financing activities for the year ended December 31, 2007 was \$13.5 million and was primarily related to additional financing with GE Commercial Healthcare Financial Services, net of payments on notes and leases payable, and line of credit balances, as well as proceeds from the exercise of options and warrants of approximately \$958,000. Cash provided by financing activities for the year ended October 31, 2006 was \$3.2 million.

-36-

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):

| | 2008 | 2009 | 2010 | 2011 | 2012 | T |
|----------------------|-----------|-----------|-----------|-----------|------------|-------|
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Notes payable | \$ 3,536 | \$ 3,455 | \$ 2,617 | \$ 2,558 | \$ 238,421 | \$ |
| Capital leases* | 11,608 | 10,437 | 7,579 | 5,427 | 1,274 | |
| Operating leases (1) | 33,555 | 28,987 | 24,681 | 19,459 | 16,163 | |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Total | \$ 48,699 | \$ 42,879 | \$ 34,877 | \$ 27,444 | \$ 255,858 | \$ |
| | ===== | ===== | ===== | ===== | ===== | ===== |

(*) Includes interest.

(1) Includes all existing options to extend lease terms

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

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

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.

ADOPTION OF THE PROVISIONS OF STAFF ACCOUNTING BULLETIN NO. 108 ("SAB NO. 108")

In September 2006, the SEC issued Staff Accounting Bulletin No. 108 ("SAB No. 108"), "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements." SAB No. 108 specifies how the carryover or reversal of prior year unrecorded financial statement misstatements should be considered in quantifying a current year misstatement. SAB No. 108 requires an approach that considers the amount by which the current year Consolidated Statement of Operations is misstated ("rollover approach") and an approach that considers the cumulative amount by which the current year Consolidated Balance Sheet is misstated ("iron curtain approach").

Prior to the issuance of SAB No. 108, either the rollover or iron curtain approach was acceptable for assessing the materiality of financial statement misstatements. Prior to the Company's application of the guidance in SAB No. 108, management used the rollover approach for quantifying financial statement misstatements.

Initial application of SAB No. 108 allows registrants to elect not to restate prior periods but to reflect the initial application in their annual financial statements covering the first fiscal year ending after November 15, 2006. The cumulative effect of the initial application should be reported in the carrying amounts of assets and liabilities as of the beginning of that fiscal year and the offsetting adjustment, net of tax, should be made to the opening balance of retained earnings for that year. We elected to record the effects of applying SAB No. 108 using the cumulative effect transition method. The misstatement that has been corrected is described below.

Subsequent to the completion of the financial statement close process for the three and six months ended June 30, 2007, we determined that certain lease rate escalation clauses had not been properly accounted for in accordance with generally accepted accounting principles for the fiscal years ended October 31, 2004, 2005 and 2006 as well as for the two months ended December 31, 2006 (our transition period) and for the quarter ended March 31, 2007. The Company had been recording rent expense based on the contractual terms of the lease agreements. We reviewed Statement of Financial Accounting Standards No. 13 (SFAS No. 13) and its related interpretations including Financial Accounting Standards Board Technical Bulletin 85-3 "Accounting for Operating Leases with Scheduled Rent Increases" (FTB 85-3), scheduled rent increases and rent holidays in an operating lease should be recognized by the lessee on a straight-line basis over the lease term unless another systematic and rational allocation is more representative of the time pattern in which leased property is physically employed. FTB 85-3 specifically states that scheduled rent increases designed to reflect the anticipated effects of inflation is not a justification to support not straight lining the lease cost over the lease term. Based on our review, we have concluded that the straight-line method is required.

During the preparation of our financial statements for the year ended December 31, 2007, we determined that we were under accrued for our obligations under our claims-made medical malpractice insurance policy. We determined that this accrual should have been on our balance sheet beginning in 2003, and through December 31, 2006 the balance should have been \$1.5 million. Also, we concluded that we had overstated our restatement adjustment to our financial statements for the year ended October 31, 2005 as disclosed in our Form 10-K for the year ended October 31, 2006 related to the correction to the useful life of our leasehold improvements.

In accordance with the transition provisions of SAB No. 108, we recorded a \$4.5 million cumulative effect adjustment to retained earnings with an offsetting amount of \$5.1 million to long-term deferred rent and accrual liabilities, and an increase to fixed assets of \$0.6 million as of January 1, 2007.

Based on the nature of these adjustments and the totality of the circumstance surrounding these adjustments, we have concluded that these adjustments are immaterial to prior years' consolidated financial statements under our previous method of assessing materiality, and therefore, have elected, as permitted under the transition provisions of SAB No. 108, to reflect the effect of these adjustments in opening liabilities as of January 1, 2007, with the offsetting adjustment reflected as a cumulative effect adjustment to opening retained earnings as of January 1, 2007.

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 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 materially differ 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. 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

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

contracted services needed by the plan enrollees.

We re-evaluated December 31, 2006 recorded receivable balances and concluded that current revised estimates are less than the prior year recorded amounts. As a result, we have recorded adjustments in 2007 to appropriately reflect current estimates of December 31, 2006 recorded receivables which decreased 2007 net revenue by \$8.5 million. Information acquired during this evaluation will be utilized in our ongoing estimation of the net realizable value of accounts receivable.

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

-38-

DEPRECIATION AND AMORTIZATION OF LONG-LIVED ASSETS

We expense 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, 2007, we have provided a full allowance on our net deferred tax assets.

VALUATION OF GOODWILL AND LONG-LIVED ASSETS

Goodwill at December 31, 2007 totaled \$84.4 million. Goodwill is recorded as a result of business combinations. Management evaluates goodwill, at a minimum, on an annual basis and whenever events and changes in circumstances suggest that the carrying amount may not be recoverable 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, 2007. Based on our analysis, we recorded no impairment loss related to goodwill as of the year ended December 31, 2007. 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 within policy limits. With the assistance of actuarial advisors, we maintain an accrual for our exposure to incurred but not reported claims. At December 31, 2007, this accrual was \$1.7 million. The accrual is based on an estimate of the ultimate amount of claims we expect to pay which have not been reported at December 31, 2007.

-39-

SIGNIFICANT EVENTS

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 |

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

| | |
|----------------------|-----------|
| 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 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 |

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

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

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 \$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. 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, 2007. 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.

-40-

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

The following unaudited pro-forma financial information for the year ended October 31, 2006, and the two months ended December 31, 2005 and 2006 represents the combined results of the Company's operations and Radiologix as if the Radiologix acquisition had occurred on November 1, 2005. The unaudited pro-forma financial information does not necessarily reflect the results of operations that would have occurred had the Company constituted a single entity during such periods.

| | YEAR ENDED OCTOBER 31, 2006 | TWO MONTHS ENDED DECEMBER 31, 2005 | TWO MONTHS ENDED DECEMBER 31, 2006 |
|------------------------------|-----------------------------------|--|--|
| | ----- | ----- | ----- |
| Net revenue | \$418,650,000 | \$ 66,719,000 | \$ 65,458,000 |
| Pro-forma net loss | (4,963,000) | (1,333,000) | (12,088,000) |
| | | | |
| Pro-forma net loss per share | \$ (0.24) | \$ (0.06) | \$ (0.39) |

FACILITY ACQUISITIONS AND DIVESTITURES

ACQUISITIONS

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.

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

In 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

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

recorded with respect to this transaction.

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

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.

Our allocation of the purchase price with respect to our 2007 acquisitions to the fair value of the assets acquired and liabilities assumed is preliminary and subject to change upon completion of our allocation analysis.

-41-

DIVESTITURES

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

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

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

RESULTS OF OPERATIONS

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

RADNET, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF OPERATIONS

| YEARS END | | TWO MONTHS ENDED | | FISCAL YEAR |
|--------------|-------|------------------|-------|-------------|
| DECEMBER 31, | | DECEMBER 31, | | OCTOBER |
| ----- | ----- | ----- | ----- | ----- |
| 2007 | 2006 | 2006 | 2005 | 2006 |

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

| | (unaudited) | | (unaudited) | | |
|---|-------------|--------|-------------|--------|--------|
| NET REVENUE | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| OPERATING EXPENSES | | | | | |
| Operating expenses | 77.7% | 76.3% | 80.2% | 75.0% | 74.7% |
| Depreciation and amortization | 10.6% | 10.1% | 10.3% | 10.8% | 10.2% |
| Provision for bad debts | 6.5% | 5.6% | 6.8% | 3.2% | 4.7% |
| Loss (gain) on sale of equipment | 0.0% | 0.2% | -0.1% | 0.0% | 0.2% |
| Severance costs | 0.2% | 0.1% | 0.4% | 0.0% | 0.0% |
| Total operating expenses | 95.0% | 92.3% | 97.6% | 89.1% | 89.9% |
| INCOME FROM OPERATIONS | 5.0% | 7.7% | 2.4% | 10.9% | 10.1% |
| OTHER EXPENSES (INCOME) | | | | | |
| Interest expense | 10.4% | 11.9% | 9.8% | 11.6% | 12.6% |
| Gain from sale of joint venture interest | -0.4% | 0.0% | 0.0% | 0.0% | 0.0% |
| Loss (gain) on debt extinguishment, net | 0.0% | 4.8% | 12.6% | 0.0% | 1.3% |
| Other (income) expense | 0.0% | 0.4% | -0.1% | -0.1% | 0.5% |
| Total other expense | 10.0% | 17.2% | 22.3% | 11.5% | 14.4% |
| LOSS BEFORE INCOME TAXES, MINORITY INTERESTS AND EARNINGS FROM MINORITY INVESTMENTS | -5.0% | -9.5% | -19.9% | -0.6% | -4.3% |
| Provision for income taxes | -0.1% | -9.5% | 0.0% | 0.0% | 0.0% |
| Minority interest in (income) loss of subsidiaries | -0.1% | 0.0% | -0.1% | 0.0% | 0.0% |
| Equity in earnings from joint ventures | 1.0% | 0.0% | 0.9% | 0.0% | 0.1% |
| NET LOSS | -4.2% | -19.0% | -19.1% | -0.6% | -4.3% |

-42-

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,

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

2006 receivable balances and concluded that current revised estimates are less than the prior year recorded amounts. As a result, we have recorded adjustments 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 | - |
| Operating expenses | 330,550 | 147,226 |
| Depreciation and amortization | 45,281 | 19,542 |
| Provision for bad debts | 27,467 | 10,707 |
| 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 in line with DRA effected increases in net revenue and increases in our procedure volumes.

-43-

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

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

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.

- 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 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.

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

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.

-44-

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 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 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.

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

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 increased competition in the area.

-45-

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 | -- |

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

| | | |
|--------------------------|-----------|-----------|
| | ----- | ----- |
| Total operating expenses | \$ 56,014 | \$ 22,734 |
| | ===== | ===== |

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 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

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

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

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

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

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.

-47-

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.

YEAR ENDED OCTOBER 31, 2006 COMPARED TO THE YEAR ENDED OCTOBER 31, 2005

During fiscal 2006, we continued our efforts to enhance our operations and expand our network, while improving our financial position. Our results for fiscal 2006 were aided by the opening and integration of new facilities, increases in PET volume, and improvements in reimbursement from managed care capitated contracts and other payors.

During fiscal 2006, we made more progress in solidifying our financial condition. Effective March 9, 2006, we completed the issuance of a \$161 million senior secured credit facility, which we used to refinance substantially all of our existing indebtedness (except for \$16.1 million of outstanding subordinated debentures and approximately \$5 million of capital lease obligations). We incurred fees and expenses for the transaction of approximately \$5.6 million. Debt issue costs were being amortized on a straight-line basis over 65 months and were classified as debt issue costs. In addition, we recorded a net loss on extinguishments of debt of \$2.1 million, which included \$1.2 million in pre-payment penalty fees that are unpaid as of October 31, 2006 and classified as accrued expenses under current liabilities. See "Financial Condition - Liquidity and Capital Resources."

NET REVENUE

Net revenue from continuing operations for fiscal 2006 was \$161.0 million compared to \$145.6 million for fiscal 2005, an increase of approximately \$15.4 million, or 10.6%. The largest net revenue increases were at the following facilities:

| | FISCAL 06 INCREASE | % |
|------------------------|-----------------------|-------|
| Temecula (5 sites) | \$3,433,000 | 45.2% |
| Tarzana (2 sites) | \$2,301,000 | 25.2% |
| Palm Springs (6 sites) | \$1,557,000 | 17.1% |

Palm Springs' net revenue increase was primarily due to increased patient volume, improved contracting and increases in reimbursement from its managed care capitated payors. Temecula's net revenue increase was primarily due to the

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

return of a managed care capitated contract and the opening and ramp-up in business of an additional facility in Murrieta providing MRI, CT, PET, nuclear medicine and x-ray services in December 2004. Tarzana's net revenue increase was primarily due to increased PET volume with the hiring of a new physician and the upgrade of one of its MRI machines that increased throughput and patient volume.

In addition, we acquired five new facilities that generated net revenues of \$1.9 million for the fiscal year ended October 31, 2006 with the majority of new sites added in the fourth quarter.

Managed care capitated payor revenue increased from 26% of net revenue, or approximately \$38 million, to 27% of net revenue, or approximately \$43 million, for the years ended October 31, 2005 and 2006, respectively. We have been successful in retaining existing contracts while obtaining increases in reimbursement from the payors coupled with receiving increases in co-payments from the individual patients upon service.

OPERATING EXPENSES

Operating expenses from continuing operations for fiscal 2006 increased approximately \$12.5 million, or 9.5%, from \$132.2 million in fiscal 2005 to \$144.7 million in fiscal 2006. The following table sets forth our operating expenses for fiscal 2005 and 2006 (dollars in thousands):

| | YEAR ENDED OCTOBER 31, | |
|--|------------------------|------------|
| | 2006 | 2005 |
| Salaries and professional reading fees | \$ 75,522 | \$ 66,674 |
| Building and equipment rental | 8,811 | 7,919 |
| General administrative expenses | 36,009 | 34,419 |
| | 120,342 | 109,012 |
| Operating expenses | | |
| Depreciation and amortization | 16,394 | 17,536 |
| Provision for bad debts | 7,626 | 4,929 |
| Loss on disposal of equipment, net | 373 | 696 |
| | \$ 144,735 | \$ 132,173 |
| Total operating expenses | \$ 144,735 | \$ 132,173 |

-48-

o SALARIES AND PROFESSIONAL READING FEES

Salaries and professional reading fees increased \$8.8 million, or 13.3%, from fiscal 2005 to 2006. The majority of the increase is due to the increase in net revenue from \$145.6 million to \$161.0 million, or 10.6%, in fiscal 2005 and 2006, respectively. In addition to the hiring of additional employees to staff new centers, professional fees increased at certain sites due to contracts where compensation to the professionals is based upon a percentage of net revenue.

o BUILDING AND EQUIPMENT RENTAL

Building and equipment rental expenses increased \$0.9 million in fiscal year 2006 when compared to the same period last year. The increase is primarily due to cost of living rental increases within existing building lease agreements, the addition of new facilities and the related rental expense, and temporary equipment rental for

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

MRI and CT equipment at two of our imaging centers.

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. Overall, general and administrative expenses increased \$1.6 million, or 4.6%, in fiscal 2006 compared to the previous period primarily due to the increase in net revenue.

o DEPRECIATION AND AMORTIZATION

Depreciation and amortization decreased by \$1.1 million in fiscal year 2006 when compared to the same period last year. The decrease in depreciation and amortization was primarily related to aging property and equipment fully depreciating during the period not offset by the addition of new property and equipment.

o PROVISION FOR BAD DEBTS

The \$2.7 million increase in the provision for bad debts was primarily a result of increased net revenue and the increase in bad debts as a percentage of net revenue from 3.4% to 4.7% in fiscal 2005 and 2006, respectively. The bad debt percentage increased due to maturing accounts receivable, the write-off of receivables due to incomplete demographic information and billing statute issues, and the faster write-off of slower-paying receivables to collection agencies to expedite cash receipts.

o LOSS ON DISPOSAL OF EQUIPMENT, NET

During fiscal 2006, losses on disposal or sale of equipment were \$0.4 million and were primarily due to the write-off of leasehold improvements at our Emeryville and Woodward Park facilities, and the sale of certain medical equipment at a loss. During fiscal 2005, losses on disposal of equipment were \$0.7 million and were primarily due to the trade-in and upgrade of an MRI at our Tarzana Advanced facility that was initiated to improve the existing equipment increasing throughput and patient volume at the site.

INTEREST EXPENSE

Interest expense for fiscal 2006 increased approximately \$2.9 million, or 16.4%, from the same period in fiscal 2005. Interest expense is primarily from our outstanding notes payable and capital lease obligations, subordinated bond debentures, related party payables and our outstanding line of credit. The increase was primarily the result of increases in notes payable and capital lease obligations and our mark to market interest rate adjustment of \$0.9 million for fiscal 2006 related to the swap arrangement. As part of the March 2006 refinancing, 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 March 9, 2006. On April 11, 2006, effective April 28, 2006, on \$73.0 million (one half of our First and Second Lien Term Loans of \$146.0 million), we entered into an interest rate swap fixing the LIBOR rate of interest at 5.47% for a period of three years. Previously, the interest rate on the \$73.0 million was based upon a spread over LIBOR, which floats with market conditions. The amount is classified in long-term accrued expenses.

LOSS (GAIN) ON DEBT EXTINGUISHMENTS, NET

For the year ended October 31, 2005, we recognized gains from extinguishments of debt for \$0.5 million for the write-off of certain notes payable past the statute of limitations for \$475,000 and the settlement of other notes payable at a discount of \$40,000. For the year ended October 31, 2006, due to the March 2006 debt restructuring, we recognized a net loss on extinguishment of debt of \$2.1 million. The loss is comprised of a gain of \$2.1 million for a discount on notes payable, offset by \$2.1 million in pre-payment penalties and \$2.1 million for the write-off of capitalized debt issue costs.

OTHER INCOME

For the year ended October 31, 2005, we earned other income of \$0.4 million. During fiscal 2005, we recognized gains from write-off of liabilities previously expensed in fiscal 2004 for approximately \$210,000, deferred rental income of \$90,000, and record copy income of \$57,000. We had no other income during the year ended October 31, 2006.

OTHER EXPENSE

In the years ended October 31, 2005 and 2006, we incurred other expense of \$349,000 and \$788,000, respectively. During the twelve months ended October 31, 2005, we recognized losses on the write-off of loan fees and other assets of \$349,000. During the twelve months ended October 31, 2006, we recorded expenses of \$788,000 that included the \$500,000 settlement payment to Broadstream and related legal fees.

EQUITY IN INCOME OF INVESTEE

In the year ended October 31, 2006, we earned income for our 47.5% investment in a PET center of approximately \$83,000. The investment of \$237,000 was made in February 2006.

INCOME TAX EXPENSE

In fiscal 2005 and 2006, the valuation allowance was fully reserved.

RELATED PARTY TRANSACTIONS

We describe certain transactions between us and certain related parties under "Certain Relationships and Related Transactions" which is incorporated by reference herein to the Proxy Statement for the Annual Meeting of Stockholders to be held on May 12, 2008 (the "Proxy Statement").

RECENT ACCOUNTING PRONOUNCEMENTS

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 concluded in those accounting pronouncements that fair value is the relevant measurement attribute. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We do not expect the adoption of SFAS 157 in 2008 to have a material impact on our consolidated financial statements.

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

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. We do not expect the adoption of SFAS 159 in 2008 to have a material 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. The standards are 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; 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.

-50-

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 do not have any material outstanding minority interests at December 31, 2007.

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

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

\$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, 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.

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 54.

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

-51-

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of RadNet, Inc.

We have audited the accompanying consolidated balance sheet of RadNet, Inc. and subsidiaries (the "Company" or "RadNet") as of December 31, 2007, and the related consolidated statements of operations, stockholders' deficit, and cash flows for the year then ended. Our audit also includes the financial statement schedule listed in the index at Item 15(a) for the year ended December 31, 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 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 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of RadNet, Inc. and subsidiaries at December 31, 2007, and the consolidated results of their operations and their cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule for the year ended December 31, 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 also have 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, 2007, 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 31, 2008, expressed an adverse opinion thereon.

/s/ Ernst & Young LLP

Los Angeles, California
March 31, 2008

-52-

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
RadNet, Inc.

We have audited the accompanying consolidated balance sheets of RadNet, Inc. and affiliates (the "Company") as of December 31, 2006 and October 31, 2006 and the related consolidated statements of operations, stockholders' deficit and cash flows for the two month period ended December 31, 2006 and for each of the two

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

years in the period ended October 31, 2006. Our audits also included the financial statement schedule listed in the Index at Item 15(a). 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 fairly, in all material respects, the consolidated financial position of RadNet, Inc. and affiliates as of December 31, 2006 and October 31, 2006, and the consolidated results of their operations and their cash flows for the two month period ended December 31, 2006 and for each of the two years in the period 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.

As described in Notes 4 and 11 to the consolidated financial statements, effective November 1, 2005, the Company changed its method of accounting for share-based payment arrangements to conform to Statement of Financial Accounting Standards No. 123R, SHARE-BASED PAYMENT.

/s/ Moss Adams LLP

Los Angeles, California
April 17, 2007

-53-

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

| | December 31, 2007 | December 31, 2006 |
|---------------------------|----------------------|----------------------|
| | ----- | ----- |
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 18 | \$ 3,221 |
| Accounts receivable, net | 87,285 | 70,794 |
| Due from affiliates | -- | 1,427 |

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

| | | |
|---|------------|------------|
| Refundable income taxes | 105 | 6,464 |
| Prepaid and other current assets | 10,273 | 7,929 |
| | ----- | ----- |
| Total current assets | 97,681 | 89,835 |
| PROPERTY AND EQUIPMENT, NET | 164,097 | 158,542 |
| OTHER ASSETS | | |
| Goodwill | 84,395 | 61,607 |
| Other intangible assets | 58,908 | 60,484 |
| Deferred financing costs, net | 9,161 | 9,422 |
| Investment in joint ventures | 15,036 | 10,125 |
| Deposits and other | 4,342 | 4,751 |
| | ----- | ----- |
| Total other assets | 171,842 | 146,389 |
| | ----- | ----- |
| Total assets | \$ 433,620 | \$ 394,766 |
| | ===== | ===== |
| LIABILITIES AND STOCKHOLDERS' DEFICIT | | |
| CURRENT LIABILITIES | | |
| Cash disbursements in transit | \$ -- | \$ 5,099 |
| Accounts payable and accrued expenses | 59,965 | 45,911 |
| Due to affiliates | 1,350 | -- |
| Notes payable | 3,536 | 2,969 |
| Current portion of deferred rent | 195 | -- |
| Obligations under capital leases | 9,455 | 4,626 |
| | ----- | ----- |
| Total current liabilities | 74,501 | 58,605 |
| | ----- | ----- |
| LONG-TERM LIABILITIES | | |
| Subordinated debentures payable | -- | -- |
| Line of credit | 4,222 | 22,000 |
| Deferred rent, net of current portion | 4,394 | -- |
| Deferred taxes | 277 | -- |
| Notes payable, net of current portion | 382,064 | 360,083 |
| Obligations under capital lease, net of current portion | 22,527 | 11,305 |
| Other non-current liabilities | 15,259 | 10,493 |
| | ----- | ----- |
| Total long-term liabilities | 428,743 | 381,903 |
| | ----- | ----- |
| COMMITMENTS AND CONTINGENCIES | | |
| MINORITY INTERESTS | 206 | 1,254 |
| STOCKHOLDERS' DEFICIT | | |
| Common stock - \$.0001 par value, 200,000,000 shares authorized; 35,239,558, 34,973,780 and 22,985,252 shares issued; 35,239,558, 34,061,281 and 22,072,752 shares outstanding at December 31, 2007, 2006 and October 31, 2006, respectively | 4 | 3 |
| Paid-in-capital | 149,631 | 146,056 |
| Accumulated other comprehensive loss | (4,579) | (73) |
| Accumulated deficit | (214,886) | (192,287) |
| | ----- | ----- |
| | (69,830) | (46,301) |
| Less: Treasury stock - 912,500 shares at cost | -- | (695) |
| | ----- | ----- |
| Total stockholders' deficit | (69,830) | (46,996) |
| | ----- | ----- |
| Total liabilities and stockholders' deficit | \$ 433,620 | \$ 394,766 |
| | ===== | ===== |

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

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

-54-

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

| | YEAR ENDED DECEMBER 31, | TWO MONTHS ENDED DECEMBER 31, | |
|---|----------------------------|----------------------------------|---------------------|
| | 2007 | 2006 | 2005 (unaudited) |
| NET REVENUE | \$ 425,470 | \$ 57,374 | \$ 25,520 |
| OPERATING EXPENSES | | | |
| Operating expenses | 330,550 | 46,033 | 19,149 |
| Depreciation and amortization | 45,281 | 5,907 | 2,759 |
| Provision for bad debts | 27,467 | 3,907 | 826 |
| Loss (gain) on sale of equipment | 72 | (38) | -- |
| Severance costs | 934 | 205 | -- |
| Total operating expenses | 404,304 | 56,014 | 22,734 |
| INCOME FROM OPERATIONS | 21,166 | 1,360 | 2,786 |
| OTHER EXPENSES (INCOME) | | | |
| Interest expense | 44,307 | 5,620 | 2,970 |
| Gain from sale of joint venture interest | (1,868) | -- | -- |
| Loss (gain) on debt extinguishment, net | -- | 7,212 | -- |
| Other (income) expense | (29) | (51) | (29) |
| Total other expense | 42,410 | 12,781 | 2,941 |
| LOSS BEFORE INCOME TAXES, MINORITY INTERESTS AND EARNINGS FROM | | | |
| MINORITY INVESTMENTS | (21,244) | (11,421) | (155) |
| Provision for income taxes | (337) | (20) | -- |
| Minority interest in (income) loss subsidiaries | (600) | (45) | -- |
| Equity in earnings of joint ventures | 4,050 | 503 | -- |
| NET LOSS | \$ (18,131) | \$ (10,983) | \$ (155) |
| BASIC AND DILUTED NET LOSS PER SHARE | \$ (0.52) | \$ (0.35) | \$ (0.01) |
| WEIGHTED AVERAGE SHARES OUTSTANDING | | | |
| Basic and diluted | 34,592,716 | 30,972,282 | 20,703,406 |

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

-55-

RADNET, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT

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

(IN THOUSANDS EXCEPT SHARE DATA)

| | Common Stock | | Paid-in Capital | Treasury stock, at cost | | Acco D |
|---|--------------|--------|--------------------|----------------------------|----------|-----------|
| | Shares | Amount | | Shares | Amount | |
| BALANCE - OCTOBER 31, 2005 | 21,615,906 | \$ 2 | \$ 101,021 | (912,500) | \$ (695) | \$ |
| 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 | (912,500) | \$ (695) | \$ |
| 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 | (912,500) | \$ (695) | \$ |
| 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) | 912,500 | 695 | |
| Share-based compensation | -- | -- | 3,313 | -- | -- | |
| Change in fair value of cash flow hedge | -- | -- | -- | -- | -- | |
| Net loss | -- | -- | -- | -- | -- | |
| Comprehensive loss | | | | | | |
| BALANCE - DECEMBER 31, 2007 | 35,239,558 | \$ 4 | \$ 149,631 | -- | \$ -- | \$ |

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

The accompanying notes are an integral part of these financial statements

-56-

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

| | YEAR ENDED DECEMBER 31, 2007 | TWO MONTHS ENDED DECEMBER 31, 2006 | TWO MONTHS ENDED DECEMBER 31, 2005 |
|---|------------------------------------|--|--|
| | | | (unaudited) |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Net loss | \$ (18,131) | \$ (10,983) | \$ (155) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | | |
| Depreciation and amortization | 45,281 | 5,907 | 2,759 |
| Provision for bad debts | 27,467 | 3,907 | 826 |
| Minority interest in income of subsidiaries | 600 | 45 | -- |
| Distributions to minority interests | (1,219) | (285) | -- |
| Equity in earnings of joint ventures | (4,050) | (503) | -- |
| Distributions from joint ventures | 4,570 | 179 | -- |
| Deferred rent amortization | 1,037 | -- | -- |
| Deferred financing cost interest expense | 1,632 | 233 | 21 |
| Net loss (gain) on disposal of assets | 72 | (38) | -- |
| Gain from sale of joint venture interest | (1,868) | -- | -- |
| Loss (gain) on extinguishment of debt | -- | 4,939 | -- |
| Accrued interest expense and interest related to swap | -- | 2,426 | 189 |
| Refinancing fees and pre-payment penalties | -- | 2,273 | -- |
| Share-based compensation | 3,313 | 78 | 28 |
| Amortization of tenant improvements and other contracts | -- | (46) | -- |
| Changes in operating assets and liabilities, net of assets acquired and liabilities assumed in purchase transactions: | | | |
| Accounts receivable | (42,923) | (2,705) | (866) |
| Other current assets | 4,396 | 621 | 63 |
| Other assets | 588 | 2,077 | (229) |
| Accounts payable and accrued expenses | 8,436 | (7,685) | (1,739) |
| Net cash provided by operating activities | 29,201 | 440 | 897 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchase of imaging facilities | (18,465) | -- | -- |
| Purchase of property and equipment | (27,207) | (2,513) | (453) |
| Purchase of Radiologix, net of cash acquired | (370) | 12,708 | -- |
| Proceeds from sale of equipment | 845 | 19 | -- |
| Proceeds from sale of joint venture interest | 2,260 | -- | -- |
| Purchase of equity interest in joint ventures | (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 | (45,864) | 10,214 | (453) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Cash disbursements in transit | (5,099) | 4,488 | 1,511 |
| Principal payments on notes and leases | (10,398) | (708) | (3,070) |

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

| | | | |
|---|-----------|-----------|----------|
| Repayment of debt upon extinguishments | -- | (348,411) | -- |
| Proceeds from borrowings upon refinancing | -- | 360,000 | -- |
| Proceeds from borrowings on notes payable & revolving credit facility | 33,137 | -- | 1,115 |
| Proceeds from borrowings from line of credit | -- | 4,918 | -- |
| Deferred financing costs | (1,351) | (9,655) | -- |
| Payments on notes to related party | -- | (737) | -- |
| Payments on line of credit | (3,787) | (17,333) | -- |
| Proceeds from issuance of common stock | 958 | 3 | -- |
| | ----- | ----- | ----- |
| Net cash provided (used) by financing activities | 13,460 | (7,435) | (444) |
| | ----- | ----- | ----- |
| NET INCREASE (DECREASE) IN CASH | (3,203) | 3,219 | -- |
| CASH, BEGINNING OF PERIOD | 3,221 | 2 | 2 |
| | ----- | ----- | ----- |
| CASH, END OF PERIOD | \$ 18 | \$ 3,221 | \$ 2 |
| | ===== | ===== | ===== |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | | |
| Cash paid during the period for interest | \$ 41,382 | \$ 3,229 | \$ 2,894 |
| Cash paid during the period for income taxes | \$ 186 | \$ -- | \$ -- |

The accompanying notes are an integral part of these financial statements

-57-

RADNET, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES

We entered into capital leases for financed equipment through notes payable for approximately \$19.6 million, \$6.0 million, \$0 (unaudited), \$4.0 million, and \$4.8 million for the year ended December 31, 2007, the two months ended December 31, 2006 and 2005, and the years ended October 31, 2006 and 2005, respectively.

Detail of non-cash investing and financing activity related to acquisitions can be found in Notes 2 and 3.

-58-

RADNET, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - NATURE OF BUSINESS

RadNet, Inc. or RadNet (formerly Primedex Health Systems, Inc.) (the Company) was incorporated on October 21, 1985. We operate a group of regional networks comprised of 141 diagnostic imaging facilities located in seven states with operations primarily in California, the Mid-Atlantic, the Treasure Coast area of Florida, Kansas and the Finger Lakes (Rochester) and Hudson Valley areas of New York, providing diagnostic imaging services including magnetic resonance imaging (MRI), computed tomography (CT), positron emission tomography (PET), nuclear medicine, mammography, ultrasound, diagnostic radiology, or X-ray, and

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

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 acquisition. 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., and Diagnostic Imaging Services, Inc. (DIS), all wholly owned subsidiaries of RadNet Management.

Howard G. Berger, M.D. is our President and Chief Executive Officer, a member of our Board of Directors and owns approximately 16% of our outstanding common stock. Dr. Berger also owns, indirectly, 99% of the equity interests in BRMG. BRMG provides all of the professional medical services at 52 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 former Radiologix centers in California and at all of the former Radiologix centers which are located outside of California, we have entered into long-term contracts with prominent radiology groups in the area to provide physician services at those facilities. The operations of BRMG are consolidated with us as a result of the contractual and operational relationship among BRMG, Dr. Berger, and us. We are considered to have a controlling financial interest in BRMG pursuant to the guidance in Emerging Issues Task Force Issue 97-2 (EITF 97-2). BRMG is a partnership of Pronet Imaging Medical Group, Inc. and Beverly Radiology Medical Group, both of which are 99%-owned by Dr. Berger. RadNet provides non-medical, technical and administrative services to BRMG for which it receives a management fee.

Radiologix, our wholly-owned subsidiary, contracts with radiology practices to provide professional services, including supervision and interpretation of diagnostic imaging procedures, in its diagnostic imaging centers. 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.

Radiologix enters 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, it provides management services and receives a fee based on the practice group's professional revenue, including revenue derived outside of its diagnostic imaging centers. Radiologix owns the diagnostic imaging assets and, therefore, receives 100% of the technical reimbursements associated with imaging procedures. Radiologix enters into managed care contracts normally for a term of one year. The radiology practice groups retain the professional reimbursements associated with imaging procedures after deducting our management service fees. Our management service fees are included in net revenue in the consolidated statement of operations and totaled \$31.2 million and \$1.8 million for the year ended December 31, 2007 and the two months ended December 31, 2006.

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

Radiologix has 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 \$23.2 million, \$31.2 million, and \$2.9 million at December 31, 2007, 2006, and October 31, 2006, respectively. We had net losses of \$18.1 million, \$11.0 million, \$155,000, \$6.9 million, and \$3.6 million for the year ended December 31, 2007, the two months ended December 31, 2006 and 2005, and the years ended October 31, 2006 and 2005, respectively. We also had a stockholders' deficit of \$69.8 million, \$47.0 million, and \$78.8 million at December 31, 2007, 2006, and October 31, 2006, respectively.

-59-

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.

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

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

Our ability to generate sufficient cash flow from operations to make payments on our debt and other contractual obligations will depend on our future financial performance. A range of economic, competitive, regulatory, legislative and business factors, many of which are outside of our control, will affect our financial performance. Taking these factors into account, including our historical experience 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.

REVERSE STOCK SPLIT

All share and per share amounts included herein have been retroactively adjusted for the one-for two reverse common stock split effected November 28, 2006.

NOTE 2 - BUSINESS ACQUISITION

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 |

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

| | | |
|---------------------------------|-----------|-------|
| 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 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 |
| | ===== |

-60-

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 |

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

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

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 \$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. 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, 2007. 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.

The following unaudited pro-forma financial information for the year ended October 31, 2006, and the two months ended December 31, 2005 and 2006 represents the combined results of the Company's operations and Radiologix as if the Radiologix acquisition had occurred on November 1, 2005. The unaudited pro-forma financial information does not necessarily reflect the results of operations that would have occurred had the Company constituted a single entity during such periods.

| | YEAR ENDED OCTOBER 31, 2006 | TWO MONTHS ENDED DECEMBER 31, 2005 | TWO MONTHS ENDED DECEMBER 31, 2006 |
|------------------------------|-----------------------------------|--|--|
| | ----- | ----- | ----- |
| Net revenue | \$418,650,000 | \$ 66,719,000 | \$ 65,458,000 |
| Pro-forma net loss | (4,963,000) | (1,333,000) | (12,088,000) |
| | | | |
| Pro-forma net loss per share | \$(0.24) | \$(0.06) | \$(0.39) |

NOTE 3 - FACILITY ACQUISITIONS AND DIVESTITURES

ACQUISITIONS

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.

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

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

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

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.

DIVESTITURES

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

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

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

NOTE 4 - 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 their analysis of current and past due accounts, past collection experience in relation to amounts billed and other relevant information. 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.

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

-62-

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, 2007, December 31, 2006 and October 31, 2006, our allowance for bad debts was \$11.6 million, \$8.5 million, and \$1.5 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 respective 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 their 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

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

and repairs are charged to expenses as incurred.

GOODWILL - Goodwill at December 31, 2007 totaled \$84.4 million. Goodwill is recorded as a result of business combinations. Management evaluates goodwill, at a minimum, on an annual basis and whenever events and changes in circumstances suggest that the carrying amount may not be recoverable 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, 2007. Based on our review, we noted no impairment related to goodwill as of October 1, 2007. 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.

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 - The Company maintains a high deductible insurance program for workers' compensation. 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 maintains 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, \$1.3 million and \$1.3 million as of December 31, 2007, December 31, 2006 and October 31, 2006, respectively. These amounts are included in the other current assets balance sheet line item. At December 31, 2007, December 31, 2006 and October 31, 2006, the Company has recorded a reserve of approximately \$3.0 million, \$1.7 million and \$482,000, respectively, for potential losses on existing claims as such amounts are believed to be probable and reasonably estimable.

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 within policy limits. We have accrued a value of \$1.7 million as of December 31, 2007 for our exposure to incurred but not reported claims. 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

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

malpractice policy.

-63-

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 revenue exceeds the costs, 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 revenue exceeds forecasted costs. 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 will be accreted into operations over the remaining term of the acquired management service agreements. As of December 31, 2007 and 2006, the remaining accrual balance is \$8.5 million, and \$8.9 million, respectively.

EQUITY BASED COMPENSATION -We have three long-term incentive stock option plans. The 1992 plan has not issued options since the inception of the 2000 plan and the 2000 plan has not issued options since the adoption of the 2006 plan. The 2006 plan reserves 1,000,000 shares of common stock. Options granted under the plan are intended to qualify as incentive stock options under existing tax regulations. In addition, we have issued non-qualified stock options from time to time in connection with acquisitions and for other purposes and have also issued stock under the plans. Employee stock options generally vest over three to five years and expire five to ten years from date of grant.

As of November 1, 2005, we adopted SFAS No. 123(R), "Share-Based Payment," applying the modified prospective method. This Statement requires all equity-based payments to employees, including grants of employee options, to be recognized in the consolidated statement of earnings based on the grant date fair value of the award. Under the modified prospective method, we are required to record equity-based compensation expense for all awards granted after the date of adoption and for the unvested portion of previously granted awards outstanding as of the date of adoption. The fair values of all options were valued using a Black-Scholes model.

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 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

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

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.

RECLASSIFICATIONS - Certain prior period amounts have been reclassified to conform with the current period presentation. These changes have no effect on income.

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):

-64-

| | YEAR ENDED DECEMBER 31, | TWO MONTHS ENDED DECEMBER 31, | | |
|---|----------------------------|----------------------------------|-----------------------------|------|
| | 2007 ---- | 2006 ---- | 2005 ---- (unaudited) | |
| Net loss | \$ (18,131) | \$ (10,983) | \$ (155) | \$ |
| BASIC EARNINGS (LOSS) PER SHARE | | | | |
| Weighted average number of common shares outstanding during the year | 34,592,716 | 30,972,282 | 20,703,406 | 21,0 |
| Basic earnings (loss) per share: | | | | |
| Basic loss per share | \$ (0.52) | \$ (0.35) | \$ (0.01) | \$ |
| DILUTED EARNINGS (LOSS) PER SHARE | | | | |
| Weighted average number of common shares outstanding during the year | 34,592,716 | 30,972,282 | 20,703,406 | 21,0 |
| Add additional shares issuable upon exercise of stock options and warrants | -- | -- | -- | |
| Weighted average number of common shares used in calculating diluted earnings per share | 34,592,716 | 30,972,282 | 20,703,406 | 21,0 |
| Diluted earnings (loss) per share: | | | | |
| Diluted loss per share | \$ (0.52) | \$ (0.35) | \$ (0.01) | \$ |

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

For the fiscal year ended December 31, 2007, the two months ended December 31, 2006 and 2005, and the fiscal years ended October 31, 2006 and 2005, we excluded all options, warrants and convertible debentures 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 nine unconsolidated joint ventures with ownership interests ranging from 22% to 50%. These joint ventures represent partnerships with hospitals, health systems or radiology practices and were formed for the purpose of owning and operating diagnostic imaging centers. Professional services at the joint venture diagnostic imaging centers are performed by contracted radiology practices or a radiology practice that participates in the joint venture. Our investment in these joint ventures is accounted for under the equity method. Investment in joint ventures increased \$4.9 million to \$15.0 million at December 31, 2007 compared to \$10.1 million at December 31, 2006. This increase is primarily related to our purchase of an additional \$4.4 million of share holdings in joint ventures that were existing as of December 31, 2006 as well as the addition of \$789,000 from the de-consolidation of another joint venture that we are now accounting for under the equity method (see note 3).

Total assets at December 31, 2007 include notes receivable from certain unconsolidated joint ventures aggregating \$254,000. Interest income related to these notes receivable was approximately \$55,000 for the year ended December 31, 2007. We also received management service fees of \$5.0 million and \$456,000 for the year ended December 31, 2007 and the two months ended December 31, 2006, respectively, from the centers underlying these joint ventures.

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

-65-

| | |
|--|-----------|
| Balance Sheet Data: | |
| Current assets | \$ 21,076 |
| Noncurrent assets | 13,691 |
| Current liabilities | (3,360) |
| Noncurrent liabilities | (5,300) |
| | ----- |
| Total net assets | \$ 26,107 |
| | ===== |
| Book value of Radnet joint venture interests | \$ 11,856 |
| Cost in excess of book value of acquired joint venture interests | 3,180 |
| | ----- |
| Total value of Radnet joint venture interests | \$ 15,036 |
| | ===== |
| Total book value of other joint venture partner interests | \$ 14,251 |
| | ===== |
| Net revenue | \$ 59,501 |
| Net income | \$ 11,758 |

VARIABLE INTEREST ENTITIES - In January 2003, the Financial Accounting

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

Standards Board issued Statement of Financial Accounting Standards Board Interpretation No. 46, Consolidation of Variable Interest Entities, an Interpretation of ARB No. 41 ("FIN 46"). In December 2003, the FASB modified FIN 46 to make certain technical corrections and address certain implementation issues that had arisen. FIN 46 provides a new framework for identifying variable interest entities (VIEs) and determining when a company should include the assets, liabilities, non-controlling interests and results of activities of a VIE in its consolidated financial statements.

In general, a VIE is a corporation, partnership, limited liability corporation, trust or any other legal structure used to conduct activities or hold assets that either (1) has an insufficient amount of equity to carry out its principal activities without additional subordinated financial support, (2) has a group of equity owners that are unable to make significant decisions about its activities, or (3) has a group of equity owners that do not have the obligation to absorb losses or the right to receive returns generated by its operations. However, FIN 46 specifically excludes a VIE that is a business if the variable interest holder did not participate significantly in the design or redesign of the entity.

The Company reviewed its investment in unconsolidated joint ventures obtained through the acquisition of Radiologix and contracted radiology practice arrangements as of December 31, 2007 and under the provisions of FIN 46 and has determined that none of its arrangements or investments meet the definition of a variable interest entity.

NOTE 5 - RECENT ACCOUNTING STANDARDS AND PRONOUNCEMENTS

In September 2006, the SEC issued Staff Accounting Bulletin No. 108 ("SAB No. 108"), "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements." SAB No. 108 specifies how the carryover or reversal of prior year unrecorded financial statement misstatements should be considered in quantifying a current year misstatement. SAB No. 108 requires an approach that considers the amount by which the current year Consolidated Statement of Operations is misstated ("rollover approach") and an approach that considers the cumulative amount by which the current year Consolidated Balance Sheet is misstated ("iron curtain approach").

Prior to the issuance of SAB No. 108, either the rollover or iron curtain approach was acceptable for assessing the materiality of financial statement misstatements. Prior to the Company's application of the guidance in SAB No. 108, management used the rollover approach for quantifying financial statement misstatements.

Initial application of SAB No. 108 allows registrants to elect not to restate prior periods but to reflect the initial application in their annual financial statements covering the first fiscal year ending after November 15, 2006. The cumulative effect of the initial application should be reported in the carrying amounts of assets and liabilities as of the beginning of that fiscal year and the offsetting adjustment, net of tax, should be made to the opening balance of retained earnings for that year. We elected to record the effects of applying SAB No. 108 using the cumulative effect transition method. The misstatements that have been corrected are described below.

Subsequent to the completion of the financial statement close process for the three and six months ended June 30, 2007, we determined that certain lease rate escalation clauses had not been properly accounted for in accordance with generally accepted accounting principles for the fiscal years ended October 31, 2004, 2005 and 2006 as well as for the two months ended December 31, 2006 (our transition period) and for the quarter ended March 31, 2007. The Company had been recording rent expense based on the contractual terms of the lease

agreements. We reviewed Statement of Financial Accounting Standards No. 13 (SFAS No. 13) and its related interpretations including Financial Accounting Standards Board Technical Bulletin 85-3 "Accounting for Operating Leases with Scheduled Rent Increases" (FTB 85-3), scheduled rent increases and rent holidays in an operating lease should be recognized by the lessee on a straight-line basis over the lease term unless another systematic and rational allocation is more representative of the time pattern in which leased property is physically employed. FTB 85-3 specifically states that scheduled rent increases designed to reflect the anticipated effects of inflation is not a justification to support not straight lining the lease cost over the lease term. Based on our review, we have concluded that the straight-line method is required.

During the preparation of our financial statements for the year ended December 31, 2007, we determined that we were under accrued for our obligations under our claims-made medical malpractice insurance policy. We determined that this accrual should have been on our balance sheet beginning in 2003, and through December 31, 2006 the balance should have been \$1.5 million. Also, we concluded that we had overstated our restatement adjustment to our financial statements for the year ended October 31, 2005 as disclosed in our Form 10-K for the year ended October 31, 2006 related to the correction to the useful life of our leasehold improvements.

In accordance with the transition provisions of SAB No. 108, we recorded a \$4.5 million cumulative effect adjustment to retained earnings with an offsetting \$5.1 million to long-term deferred rent and accrued liabilities, and an increase to fixed assets of \$0.6 million as of January 1, 2007.

Based on the nature of these adjustments and the totality of the circumstance surrounding these adjustments, we have concluded that these adjustments are immaterial to prior years' consolidated financial statements under our previous method of assessing materiality, and therefore, have elected, as permitted under the transition provisions of SAB No. 108, to reflect the effect of these adjustments in opening assets and liabilities as of January 1, 2007, with the offsetting adjustment reflected as a cumulative effect adjustment to opening retained earnings as of January 1, 2007.

In July 2006, the FASB issued SFAS Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of SFAS Statement No. 109" ("FIN 48"), and effective January 1, 2007, we adopted FIN 48. FIN 48 applies to all "tax positions" accounted for under SFAS 109. FIN 48 refers to "tax positions" as positions taken in a previously filed tax return or positions expected to be taken in a future tax return which are reflected in measuring current or deferred income tax assets and liabilities reported in the financial statements. FIN 48 further clarifies a tax position to include, but not be limited to, the following:

- o an allocation or a shift of income between taxing jurisdictions,
- o the characterization of income or a decision to exclude reporting taxable income in a tax return, or
- o a decision to classify a transaction, entity, or other position in a tax return as tax exempt.

FIN 48 clarifies that a tax benefit may be reflected in the financial statements only if it is "more likely than not" that a company will be able to sustain the tax return position, based on its technical merits. If a tax benefit meets this criterion, it should be measured and recognized based on the largest amount of benefit that is cumulatively greater than 50% likely to be realized.

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

This is a change from current practice, whereby companies may recognize a tax benefit only if it is probable a tax position will be sustained.

FIN 48 also requires that we make qualitative and quantitative disclosures, including a discussion of reasonably possible changes that might occur in unrecognized tax benefits over the next 12 months; a description of open tax years by major jurisdictions and a roll-forward of all unrecognized tax benefits, presented as a reconciliation of the beginning and ending balances of the unrecognized tax benefits on an aggregated basis.

We are subject to tax audits in several tax jurisdictions within the U.S. and will remain subject to examination until the statute of limitations expires for each respective tax jurisdiction. Tax audits by their very nature are often complex and can require several years to complete. Information relating to our tax examinations by jurisdiction is as follows:

- o Federal -- we are subject to U.S. federal tax examinations by tax authorities for the tax years ended 2003 to 2007
- o State -- we are subject to state tax examinations by tax authorities for the tax years ended 2002 to 2007

The adoption of FIN 48 did not have a material impact on our financial statements or disclosures. As of January 1, 2007 and December 31, 2007 we did not recognize any assets or liabilities for unrecognized tax benefits relative to uncertain tax positions. We do not currently anticipate that any significant increase or decrease to the gross unrecognized tax benefits will be recorded during the next 12 months. Any interest or penalties resulting from examinations will continue to be recognized as a component of the income tax provision; however, since there are no unrecognized tax benefits as a result of tax positions taken, there is no accrued interest and penalties.

Additionally, the future utilization of the Company's net operating loss carryforwards to offset future taxable income may be subject to a substantial annual limitation as a result of ownership changes that may have occurred previously or that could occur in the future.

-67-

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 concluded in those accounting pronouncements that fair value is the relevant measurement attribute. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We do not expect the adoption of SFAS 157 in 2008 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. We do not expect the adoption of SFAS 159 in 2008 to have a material impact on our consolidated financial statements.

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

In December 2007, the FASB issued SFAS 141(R), BUSINESS COMBINATIONS and SFAS 160, NONCONTROLLING INTERESTS IN CONSOLIDATED FINANCIAL STATEMENTS. The standards are 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; 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 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 do not have any material outstanding minority interests at December 31, 2007.

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.

NOTE 6 - PROPERTY AND EQUIPMENT

| | DECEMBER 31, | | OCTOBER 31, |
|---|--------------|------------|-------------|
| | 2007 | 2006 | 2006 |
| Buildings | \$ 602 | \$ 602 | \$ 600 |
| Medical equipment | 142,423 | 134,655 | 107,729 |
| Office equipment, furniture and fixtures | 42,466 | 42,060 | 13,371 |
| Leasehold improvements | 80,518 | 66,960 | 33,453 |
| Equipment under capital lease | 43,162 | 21,551 | 11,110 |
| | 309,171 | 265,828 | 166,263 |
| Accumulated depreciation and amortization | (145,074) | (107,286) | (101,697) |
| | \$ 164,097 | \$ 158,542 | \$ 64,566 |

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

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

Depreciation and amortization expense on property and equipment, including amortization of equipment under capital leases, for the fiscal year ended December 31, 2007, the two months ended December 31, 2006 and 2005, and the fiscal years ended October 31, 2006 and 2005 was \$40.7 million, \$5.4 million, \$2.7 million, \$16.2 million, and \$17.3 million, respectively.

-68-

NOTE 7 - GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill at December 31, 2007 totaled \$84.4 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 year ended December 31, 2007 is provided below (in thousands):

| | |
|--|--|
| Balance as of October 31, 2006 and 2005 | |
| Goodwill acquired through the acquisition of Radiologix (see Note 2) | |
| Balance as of December 31, 2006 | |
| Adjustments to our preliminary allocation of the purchase price of Radiologix (see Note 3) | |
| Goodwill acquired through the acquisition of Walnut Creek Open MRI (see Note 3) | |
| Goodwill acquired through the acquisition of Valley Imaging Center, Inc. (see Note 3) | |
| Goodwill acquired through the acquisition of Borge Imaging Group (see Note 3) | |
| Goodwill acquired through the acquisition of Rockville Open MRI (see Note 3) | |
| Goodwill acquired through the acquisition of Liberty Pacific Imaging (see Note 3) | |
| Balance as of December 31, 2007 | |

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 \$2.6 million at December 31, 2007. 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 \$5.1 million less accumulated amortization of \$2.3 million, as well as the value of trade names associated with acquired imaging facilities totaling \$1.5 million less accumulated amortization of \$637,000. Amortization expense for the year ended December 31, 2007 was \$4.5 million. Intangible assets are amortized using the straight-line method. Management service agreements are amortized over 25 years using the straight line method. The weighted average amortization period of identifiable intangible assets is 23 years.

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

| | YEAR ENDED DECEMBER 31, | | | | |
|-----------------------------------|-------------------------|----------|----------|----------|-------|
| | 2008 | 2009 | 2010 | 2011 | |
| | ----- | ----- | ----- | ----- | ----- |
| Management service agreements | \$ 2,315 | \$ 2,315 | \$ 2,315 | \$ 2,315 | \$ |
| Covenant not to compete contracts | 1,513 | 357 | 357 | 357 | |
| Trade names | 150 | 150 | 150 | 150 | |
| | ----- | ----- | ----- | ----- | ----- |
| Total annual amortization | \$ 3,978 | \$ 2,822 | \$ 2,822 | \$ 2,822 | \$ |
| | ===== | ===== | ===== | ===== | ===== |

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

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

| | DECEMBER 31, | | OCTOBER 31, |
|------------------------------|--------------|-----------|-------------|
| | 2007 | 2006 | 2006 |
| Accounts payable | \$ 13,288 | \$ 17,935 | \$ 10,545 |
| Accrued expenses | 31,950 | 15,442 | 10,118 |
| Accrued payroll and vacation | 8,216 | 3,612 | 5,025 |
| Accrued professional fees | 6,511 | 8,008 | 533 |
| Other | -- | 914 | -- |
| | | | |
| Total | \$ 59,965 | \$ 45,911 | \$ 26,221 |

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 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 first lien Term Loan and a \$135 million second lien Term Loan. The revolving credit facility has a term of five years, the term loan has a term of six years and the second lien term loan has a term of six and one-half years. Interest is payable on all loans initially at an Index Rate plus the Applicable Index Margin, as defined. The Index Rate is

-69-

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. The Incremental Facility will be used to fund certain identified strategic initiatives and for general corporate purposes. The terms of our first lien term loan as explained above will remain unchanged.

On February 22, 2008, we secured an 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

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

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 lien 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 to 9.0% 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.

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

The Company documents its risk management strategy and hedge effectiveness at the inception of the hedge, and, unless the instrument qualifies for the short-cut method of hedge accounting, over the term of each hedging relationship. The Company's use of derivative financial instruments is limited to interest rate swaps, the purpose of which is to hedge the cash flows of variable-rate indebtedness. The Company does not hold or issue derivative financial instruments for speculative purposes. In accordance with Statement of Financial Accounting Standards No. 133, derivatives that have been designated and qualify as cash flow hedging instruments are reported at fair value. The gain or loss on the effective portion of the hedge (i.e., change in fair value) is initially reported as a component of other comprehensive income in the Company's Consolidated Statement of Stockholders' Equity. The remaining gain or loss, if any, is recognized currently in earnings. Of the derivatives that were not designated as cash flow hedging instruments, we recorded an increase to interest expense of approximately \$820,000, a decrease of \$210,000 and an increase of \$920,000 for the year ended December 31, 2007, two months ended December 31, 2006 and the year ended October 31, 2006, respectively. The corresponding liability of approximately \$1.5 million, \$710,000, and \$920,000 is included in the other non-current liabilities in the consolidated balance sheets at December 31, 2007, October 31, 2006, and December 31, 2006, respectively. Of the derivatives that were designated as cash flow hedging instruments, we recorded \$4.6 million to accumulated other comprehensive loss, and an offsetting liability of the same amount for the fair value of these hedging instruments at December 31, 2007.

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

| | DECEMBER 31, | | OCTOBER 31, |
|---|--------------|-------|-------------|
| | 2007 | 2006 | 2006 |
| Revolving lines of credit | \$ 4,222 | \$ 22 | \$ 12,437 |
| Notes payable at interest rates ranging | | | |

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

| | | | |
|--|------------|------------|------------|
| from 8.8% to 13.5%, due through 2009, collateralized by medical equipment | 385,600 | 363,052 | 147,149 |
| Obligations under capital leases at interest rates ranging from 9.1% to 13.0%, due through 2012, collateralized by medical and office equipment | 31,982 | 15,931 | 6,299 |
| | ----- | ----- | ----- |
| | 421,804 | 379,005 | 165,885 |
| Less: current portion | (12,991) | (7,595) | (3,572) |
| | ----- | ----- | ----- |
| | \$ 408,813 | \$ 371,410 | \$ 162,313 |
| | ===== | ===== | ===== |

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):

| | | |
|------------|----|---------|
| 2008 | \$ | 3,536 |
| 2009 | | 3,455 |
| 2010 | | 2,617 |
| 2011 | | 2,558 |
| 2012 | | 238,422 |
| Thereafter | | 139,234 |
| | | ----- |
| | \$ | 389,822 |
| | | ===== |

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

| | | |
|--|----|---------|
| 2008 | \$ | 11,608 |
| 2009 | | 10,437 |
| 2010 | | 7,579 |
| 2011 | | 5,427 |
| 2012 | | 1,274 |
| | | ----- |
| Total minimum payments | | 36,325 |
| Amount representing interest | | (4,343) |
| | | ----- |
| Present value of net minimum lease payments | | 31,982 |
| Less current portion | | (9,455) |
| | | ----- |
| Long-term portion | \$ | 22,527 |
| | | ===== |

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 year ended December 31, 2007 and the two months ended December 31, 2006, we recognized \$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 two months ended December 31, 2005 or the fiscal years ended October 31, 2006 and 2005.

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

-71-

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

| | YEAR ENDED | TWO MONTHS ENDED | | YE |
|--|--------------|------------------|-------------|---------|
| | DECEMBER 31, | DECEMBER 31, | | OC |
| | 2007 | 2006 | 2005 | 2006 |
| | | | (unaudited) | |
| Federal tax | -34.00% | (34.00)% | (34.00)% | (34.00) |
| State franchise tax, net of federal benefit | -4.79% | (5.02)% | (5.80)% | (5.80) |
| Non deductible expenses | 1.14% | 0.70% | 0.00% | 0.70% |
| Provision to return reconciliation and other | 1.36% | | | |
| Changes in valuation allowance | 38.41% | 38.32% | 39.80% | 39.10% |
| Income tax expense | 2.12% | 0.00% | 0.00% | 0.00% |

Our deferred tax assets and liabilities were comprised of the following items:

Deferred Tax Assets & Liabilities:

| | DECEMBER 31, | | OCTOBER 31, |
|------------------------------------|--------------|-------------|-------------|
| | 2007 | 2006 | 2006 |
| Deferred tax assets: | | | |
| Net operating losses | \$ 61,108 | \$ 71,389 | \$ 61,537 |
| MSA liability | 3,348 | 3,220 | -- |
| Capital leases | -- | 1,581 | -- |
| Allowance for doubtful accounts | 1,482 | 674 | 1,545 |
| Accrued expenses | -- | 1,166 | 990 |
| Other | 1,567 | -- | 160 |
| Total Deferred Tax Assets | \$ 67,505 | \$ 78,030 | \$ 64,232 |
| Deferred tax liabilities: | | | |
| Fixed and intangible assets | (19,492) | (23,780) | (11,090) |
| Other | (288) | (82) | -- |
| Total Deferred Tax Liabilities | \$ (19,780) | \$ (23,862) | \$ (11,090) |
| Net deferred tax Asset (Liability) | 47,725 | 54,168 | 53,142 |
| Valuation Allowance | (48,002) | (54,168) | (53,142) |
| | \$ (277) | \$ -- | \$ -- |

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

As of December 31, 2007, we had federal and state net operating loss carryforwards of approximately \$163,641,000 and \$110,823,000, respectively, which expire at various intervals from the years 2007 to 2026. As of December 31, 2007, \$24,597,000 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 \$3.4 million of excess tax benefits related to the exercise of nonqualified stock options which will be recorded in equity when realized.

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

-72-

| YEAR ENDED | TOTAL NET OPERATING LOSS CARRYFORWARDS | AMOUNT SUBJECT TO 382 LIMITATION |
|------------|---|-------------------------------------|
| ----- | ----- | ----- |
| 2008 | \$ 2,513 | \$ 2,513 |
| 2009 | 18,562 | 5,337 |
| 2010 | 13,283 | 1,737 |
| 2011 | 1,501 | 1,501 |
| 2012 | -- | - |
| Thereafter | 127,782 | 13,509 |
| | ----- | ----- |
| | \$ 163,641 | \$ 24,597 |
| | ===== | ===== |

NOTE 11 - CAPITAL STRUCTURE AND CAPITAL TRANSACTIONS

STOCK INCENTIVE PLANS

We have three long-term incentive stock option plans. The 1992 plan has not issued options since the inception of the 2000 plan and the 2000 plan has not issued options since the adoption of the 2006 plan. The 2006 plan reserves 1,000,000 shares of common stock. Options granted under the plan are intended to qualify as incentive stock options under existing tax regulations. In addition, we have issued non-qualified stock options from time to time in connection with acquisitions and for other purposes and have also issued stock under the plans. Employee stock options generally vest over three to five years and expire five to ten years from date of grant.

As of December 31, 2007, 225,250, or approximately 48.4%, of all the outstanding stock options are fully vested. During the year ended December 31, 2007, we granted options to acquire 260,000 shares of common stock.

We have issued warrants under various types of arrangements to employees, in conjunction with debt financing and in exchange for outside services. All warrants are issued with an exercise price equal to the fair market value of the underlying common stock on the date of issuance. The warrants expire from five to seven years from the date of grant. Warrants issued to employees can vest immediately or up to seven years. Vesting terms are determined by the board of directors at the date of issuance.

As of December 31, 2007, 3,396,667, or approximately 72.3%, of all the

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

outstanding warrants are fully vested. During the year ended December 31, 2007, we granted warrants to acquire 1,450,000 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 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):

-73-

| | FOR THE YEAR ENDED DECEMBER 31, 2007 IMPACT OF EQUITY-BASED COMPENSATION | | FOR THE TWO MONTHS ENDED DECEMBER 31, 2006 IMPACT OF EQUITY-BASED COMPENSATION | | FO O IMP |
|--|---|-----------------------|---|-----------------------|----------------|
| | AS REPORTED ----- | COMPENSATION ----- | AS REPORTED ----- | COMPENSATION ----- | AS RE |
| Income from operations | \$ 21,166 | \$ (3,313) | \$ 1,360 | \$ (78) | \$ |
| Loss before income tax | \$ (17,794) | \$ (3,313) | \$ (10,963) | \$ (78) | \$ |
| Net loss | \$ (18,131) | \$ (3,313) | \$ (10,983) | \$ (78) | \$ |
| Net basic and diluted earning per share | \$ (0.52) | \$ (0.10) | \$ (0.35) | \$ (0.00) | \$ |

Prior to November 1, 2005, we accounted for equity-based awards under the intrinsic value method, which followed the recognition and measurement principles of APB Opinion No. 25 and related Interpretations.

The following summarizes all of our option and warrant transactions from November 1, 2006 to December 31, 2007:

| OUTSTANDING OPTIONS | SHARES | WEIGHTED AVERAGE EXERCISE PRICE PER COMMON SHARE | WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (IN YEARS) | AGGR INTR VA |
|---------------------|--------|--|---|--------------------|
| ----- | | | | |

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

| | | | | | |
|----------------------------------|-----------|----|------|------|--------|
| Balance, October 31, 2006 | 353,750 | \$ | 1.02 | | |
| Granted | -- | | -- | | |
| Exercised | (3,125) | | 0.92 | | |
| Canceled or expired | -- | | -- | | |
| | ----- | | | | |
| Balance, December 31, 2006 | 350,625 | | 1.01 | | |
| Granted | 260,000 | | 9.03 | | |
| Exercised | (138,125) | | 0.85 | | |
| Canceled or expired | (7,250) | | 3.26 | | |
| | ----- | | | | |
| Balance, December 31, 2007 | 465,250 | \$ | 5.50 | 6.59 | \$ 2,1 |
| | ===== | | | | |
| Exercisable at December 31, 2007 | 225,250 | \$ | 1.73 | 1.60 | \$ 1,8 |
| | ===== | | | | |

| OUTSTANDING OPTIONS | SHARES | WEIGHTED AVERAGE EXERCISE PRICE PER COMMON SHARE | WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (IN YEARS) | AGGR INTR VA |
|----------------------------------|-------------|--|--|--------------|
| ----- | ----- | ----- | ----- | ----- |
| Balance, October 31, 2006 | 4,628,167 | \$ 1.20 | | |
| Granted | -- | -- | | |
| Exercised | -- | -- | | |
| Canceled or expired | (37,500) | 1.90 | | |
| | ----- | | | |
| Balance, December 31, 2006 | 4,590,667 | 1.20 | | |
| Granted | 1,450,000 | 5.32 | | |
| Exercised | (1,040,153) | 0.92 | | |
| Canceled or expired | (303,847) | 2.31 | | |
| | ----- | | | |
| Balance, December 31, 2007 | 4,696,667 | \$ 2.45 | 4.01 | \$ 31, |
| | ===== | | | |
| Exercisable at December 31, 2007 | 3,396,667 | \$ 1.49 | 2.77 | \$ 28, |
| | ===== | | | |

-74-

The aggregate intrinsic value in the table above represents the total pretax intrinsic value (the difference between our closing stock price on December 31, 2007 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, 2007. Total intrinsic value of options and warrants exercised during the year ended December 31, 2007 was approximately \$11.1 million. As of December 31, 2007, total unrecognized share-based compensation expense related to non-vested employee awards was approximately \$5.5 million, which is expected to be recognized over a weighted average period of approximately 3.5 years.

FAIR VALUE DISCLOSURES - PRIOR TO ADOPTING SFAS NO. 123(R)

We adopted SFAS 123(R) using the modified prospective transition method, which requires that application of the accounting standard as of November 1, 2005, the first day of our fiscal year 2006. In accordance with the modified prospective transition method, our consolidated financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS 123(R).

The following table illustrates the effect on net income and earnings per share if we had applied the fair value recognition principles of SFAS No. 123 to

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

stock-based employee compensation (in thousands except per share date):

| | 2005 |
|--|------------|
| Net loss as reported | \$ (3,570) |
| Deduct: Total stock-based employee compensation expense determined under fair value-based method | (341) |
| Pro forma net loss | \$ (3,911) |
| Loss per share: | |
| Basic - as reported | \$ (0.17) |
| Basic - pro forma | \$ (0.19) |
| Diluted - as reported | \$ (0.17) |
| Diluted - pro forma | \$ (0.19) |

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 | EXPEC DIVID |
|-------------------|---|------------------|------------------------|----------------|
| December 31, 2007 | 4.54% | 4.19 years | 94.38% | |
| December 31, 2006 | No options were granted during the two months | | | |
| October 31, 2006 | 4.75% to 5.07% | 3.5 years | 96.21% to 101.31% | |
| October 31, 2005 | 3.00% | 5 years | 99.22% | |

We have determined the 2007 expected term assumption under the "Simplified Method" as defined in SAB 107. 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 year ended December 31, 2007 was \$3.43. 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 2029. 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

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

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):

-75-

| | FACILITIES | EQUIPMENT | TOTAL |
|------------|------------|-----------|------------|
| | ----- | ----- | ----- |
| 2008 | \$ 23,227 | \$ 10,328 | \$ 33,555 |
| 2009 | 21,269 | 7,719 | 28,988 |
| 2010 | 20,218 | 4,463 | 24,681 |
| 2011 | 18,005 | 1,454 | 19,459 |
| 2012 | 16,163 | - | 16,163 |
| Thereafter | 66,386 | - | 66,386 |
| | ----- | ----- | ----- |
| | \$ 165,268 | \$ 23,964 | \$ 189,232 |
| | ===== | ===== | ===== |

Total rent expense, including equipment rentals, for the year ended December 31, 2007, the two months ended December 31, 2006 and 2005, and the years ended October 31, 2006 and 2005, was \$34.3 million, \$6.1 million, \$1.4 million, \$8.8 million, and \$7.9 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. 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.

We also have employment agreements with officers, key employees and through BRMG physicians, at annual compensation rates ranging from \$50,000 to \$600,000 per year and for periods extending up to five years through September 2011. Total commitments under the agreements are approximately \$26,019,000 for calendar 2007. The majority of the contracts are for one year.

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. Net revenue is reduced by the provision for bad debts, mobile PET revenue and other professional reading service revenue to obtain adjusted net revenue.

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

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

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 2003. Plaintiffs allege that in 2000, we acquired from a third party one or more unprofitable imaging centers in order to help DVI conceal the fact that existing DVI loans on the centers were delinquent. Plaintiffs argue that we should have known that DVI was engaging in fraudulent practices to conceal losses, and our alleged "lack of due diligence" in investigating DVI's finances in the course of these acquisitions amounted to complicity in deceptive and misleading practices.

We have answered the complaint. The matter is still in its discovery stage, tentatively intended to terminate in May 2008. Upon its termination we intend to seek a summary judgment pursuant to the decision in a recently released U.S. Supreme Court case. We intend to vigorously contest the allegations.

-76-

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 fiscal years ended December 31, 2007 and October 31, 2006. 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).

| | 2007 QUARTER ENDED | | | | 2006 | |
|--|--------------------|---------------|---------------|-----------|-----------|--------|
| | Mar 31 | June 30 | Sept 30 | Dec 31 | Jan 31 | Apr |
| | (as restated) | (as restated) | (as restated) | (1) | | |
| Statement of Operations Data: | | | | | | |
| Net revenue | \$105,815 | \$107,027 | \$110,209 | \$102,419 | \$ 38,538 | \$ 39, |
| Total operating expenses | 101,406 | 96,875 | 101,546 | 104,477 | 34,638 | 34, |
| Total other expense | 10,837 | 9,728 | 11,575 | 10,270 | 4,410 | 7, |
| Equity in earnings of joint ventures | 995 | 982 | 1,103 | 970 | - | |
| Minority interests in income of subsidiaries | (115) | (170) | (198) | (117) | - | |
| Income tax expense | 16 | 13 | 86 | 222 | - | |

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

| | | | | | | |
|----------------------------------|---------|-------|---------|----------|--------|-----|
| Net income (loss) | (5,564) | 1,223 | (2,093) | (11,697) | (510) | (2, |
| Basic earnings (loss) per share: | (0.16) | 0.04 | (0.06) | (0.33) | (0.02) | (0 |
| Diluted earnings (loss) are: | (0.16) | 0.03 | (0.06) | (0.33) | (0.02) | (0 |

(1) 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.

Results for the quarters ended March 31, 2007, June 30, 2007, and September 30, 2007 have been restated to properly reflect adjustments identified during the preparation of our financial statements for the year ended December 31, 2007 (see Note 5). These adjustments were primarily related to an increase in our accrued liabilities for medical malpractice insurance exposure (\$43,000, \$43,000 and \$43,000 for the quarters ended March 31, June 30, and September 30, 2007, respectively) and employee bonus (\$600,000 for the quarter ended March 31, 2007), as well as adjustments to depreciation expense for corrections to in-service dates in our fixed asset system (\$260,000, \$139,000 and \$174,000 for the quarters ended March 31, June 30, and September 30, 2007, respectively). These adjustments resulted in an increase to total operating expense, total other expenses, and net loss and net loss per shares as follows (in thousands except for earnings per share):

| | MARCH 31, 2007 | | JUNE 30, 2007 | | SEPTEMBER 30, 2007 | |
|--------------------------|----------------|------------------------|----------------|------------------------|--------------------|------------------------|
| | AS ADJUSTED | PREVIOUSLY REPORTED | AS ADJUSTED | PREVIOUSLY REPORTED | AS ADJUSTED | PREVIOUSLY REPORTED |
| Total operating expenses | \$101,406 | \$100,141 | \$ 96,875 | \$ 96,693 | \$101,546 | \$101,329 |
| Total other expenses | 10,837 | 10,916 | 9,728 | 9,807 | 11,575 | 11,654 |
| Net income (loss) | (5,564) | (4,378) | 1,223 | 1,326 | (2,093) | (1,955) |
| Basic income (loss) per | (0.16) | (0.13) | 0.04 | 0.04 | (0.06) | (0.06) |
| Diluted (loss) per share | (0.16) | (0.13) | 0.03 | 0.04 | (0.06) | (0.06) |

-77-

NOTE 15 - SUBSEQUENT EVENTS

On, February 1, 2008, we acquired the Rolling Oaks Radiology imaging centers in Thousand Oaks, California, an affluent suburb of Los Angeles in Southern Ventura County. 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 acquired facilities will add approximately \$9.0 million of revenue on an annualized basis. The purchase price consisted of approximately \$5.9 million in cash and the assumption of approximately \$5.9 million of debt.

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 lien 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

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

established in November 2006, we increased the Applicable LIBOR Margin to 4.25% from 2% for the revolving credit facility and the term loan and to 9.0% from 6% 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.

On February 26, 2008, we signed a definitive agreement to purchase the assets of six Los Angeles imaging centers from InSight Health Corp. for \$8.5 million. The cash purchase price will be funded by a portion of the Second Incremental Facility provided by GE Healthcare Financial Services. The operations of the to-be-acquired centers produce approximately \$10 million in annual revenue. The centers that we will acquire include InSight's centers in Simi Valley, Thousand Oaks, Westlake, Encino, Van Nuys and Valencia. The facilities operate a combination of imaging modalities, including MRI, CT, X-ray, Ultrasound and Mammography. The transaction is expected to close in March or April 2008.

-78-

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

Inapplicable.

ITEM 9A. CONTROLS AND PROCEDURES

Our management, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as defined under Rule 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of December 31, 2007, the end of the period covered by this annual report on Form 10-K, due to the existence of the material weaknesses described below.

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 Rule 13a-15(f). Management, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of our internal control over financial reporting based on the INTERNAL CONTROL- INTEGRATED FRAMEWORK issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on its evaluation, management concluded that our internal control over financial reporting was not effective as of December 31, 2007 due to the existence of material weaknesses discussed below.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis.

The following material weaknesses were identified in our internal control over financial reporting as of December 31, 2007:

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

VALUATION OF ACCOUNTS RECEIVABLE

We have determined that our methodology for determining the net realizable value of accounts receivable was inadequate and we recorded a post closing adjustment of \$8.5 million to reduce accounts receivable to the revised estimated net realizable value at December 31, 2007. Our analysis overvalued accounts sent to collection and did not factor in a reduction of the expected collection percentages as the accounts age. The run-out of 2006 accounts receivable, which was our primary tool with which we analyzed the collectability of accounts receivable, indicated an overvaluation of our 2006 accounts receivable. The results of the run-out analysis was not considered in our initial analysis of the net realizable value of accounts receivable.

FINANCIAL STATEMENT CLOSE PROCESS

We have determined that our financial statement close process is flawed. There is not a sufficient review of the financial statements or underlying reconciliations and account analyses prior to the closing of our books as is evidenced by the number of errors noted and material post closing adjustments recorded. For example, in addition to the material adjustment in accounts receivable noted above, other adjustments recorded include (1) a failure to record a non-cash accrual for a \$600,000 bonus due to the our COO upon his future exercising of his warrants; the recording of this accrual should have been recorded upon vesting of his stock options in Q1 2007; (2) a missed recording of the settlement of a litigation matter for \$120,000 and (3) the misstatement of the amortization of deferred financing cost by approximately \$300,000 because we used an inaccurate amortization period.

FIXED ASSET RECORDING

We have concluded that we do not have an adequate process to determine the appropriate date that an asset is placed in service. Our method has been to record assets as placed in service based on the date an invoice is paid. This has resulted in both the overstatement and understatement of depreciation, and the understatement of fixed assets and accounts payable at applicable balance sheet dates. As a result, we recorded an adjustment to increase depreciation expense by approximately \$1.2 million for the year ended December 31, 2007. Prior to recording an adjustment, fixed assets and accounts payable were understated by \$4.3 million as of December 31, 2007.

-79-

LIABILITY FOR MEDICAL MALPRACTICE EXPOSURE

We have determined that we do not have appropriate control activities in place to account for our exposure to incurred but not reported malpractice claims (IBNR or the tail liability). We have a claims made medical malpractice insurance policy. We record a reserve for our portion of reported claims based on the policy deductible. However, based on the guidance in the American Institute of Certified Public Accountants' (AICPA's) Healthcare Audit Guide, Chapter 8, we should have been recording a reserve to account for our exposure to IBNR. Prior to recording an adjustment, the understatement of the medical malpractice liability as of December 31, 2007 was approximately \$1.7 million, and the expense for medical malpractice insurance was understated by approximately \$170,000 for the year ended December 31, 2007.

ENTITY LEVEL CONTROLS

We have determined that we do not have adequate entity level controls in place as is evidenced by the number of material weaknesses noted above. We believe that the lack of adequate entity level controls is manifested in the

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

lack of accounting personnel who are familiar with U.S. generally accepted accounting principles (GAAP), and the fact that the overall review process did not detect any of the accounting errors noted above, none of which involve complex accounting rules or involve an estimation process, except for the determination of the net realizable value of accounts receivable.

The effectiveness of our internal control over financial reporting as of December 31, 2007 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report thereon which appears herein.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

Except as noted above, there have been no changes in our internal control over financial reporting during the quarter ended December 31, 2007 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

MANAGEMENT'S REMEDIATION INITIATIVES

VALUATION OF ACCOUNTS RECEIVABLE

We have formed a Revenue Committee, which includes the participation of the Chief Executive Officer, Chief Financial Officer, Director of Reimbursement Operations and other financial personnel. The Committee will meet every month to review the collection statistics applied to monthly and year-to-date gross charges as well as review the collectability of accounts receivable balances as of the end of each month. The Committee will review and analyze collection run-out statistics and compare the cash collections to historical data and trends. We believe that collection patterns and anomalies will be identified more quickly and appropriate adjustments will be made in a more timely manner to establish the accurate net realizable value of accounts receivable balances. Furthermore, we have assigned additional personnel and other resources to review, monitor and analyze billing and collection performance.

FINANCIAL STATEMENT CLOSE PROCESS

Our planned remediation includes:

- i) Implementing processes and procedures to perform the necessary analysis, critical review, approval, and reconciliation of journal entries and account balances;
- ii) Hiring additional accounting personnel with strong GAAP accounting knowledge;
- iii) Establishing a more comprehensive financial statement close-list, with pre-assigned roles and responsibilities for the completion of each item on the list;
- iv) Establishing procedures for period end cut-offs, including, but not limited to, identifying and recognizing all incurred liabilities and the recording of assets;
- v) Increasing supervisory review of the consolidation process in anticipation of implementing an automated consolidation process;
- vi) Developing a more formalized process for the identification of subsequent events and complex or unusual transactions; and
- vii) Establishing monthly communications between finance and accounting personnel and representatives from the purchasing, legal and

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

operations level managers to identify and quantify potential unrecorded liabilities and fixed assets.

-80-

FIXED ASSET RECORDING

We will assign additional resources to track, record and depreciate fixed assets. We will schedule monthly meetings with the purchasing department and monthly calls with the regional controllers to identify assets when they are delivered to sites and record their correct in-service dates. We will focus on recording assets and depreciating them in the month when they placed in-service. Additionally, we will record expenses related to progress payments to vendors in the period in which services are rendered so as to keep accurate balances of Construction-in-Progress accounts.

LIABILITY FOR MEDICAL MALPRACTICE EXPOSURE

We will engage a third-party actuary to determine the IBNR as of the end of each reporting period. Accordingly, we will use the results of each actuarial study to adjust our IBNR reserve as of the end of each period.

ENTITY LEVEL CONTROLS

We will seek to add resources with GAAP accounting knowledge at the entity level. Additionally, we will assign senior level oversight and review to entity prepared trial balances and financial statements to insure that accounting errors are detected and corrected prior to the corporate-level consolidation process.

The certifications required by Section 302 of the Sarbanes-Oxley Act of 2002 are filed as exhibits 31.1 and 31.2, respectively, to this Form 10-K.

-81-

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, 2007, 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 "Report of Management 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

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

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 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.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weaknesses have been identified and are included in management's assessment. Management has identified the following material weaknesses related to: (1) the estimation process used to determine the net realizable value of accounts receivable; (2) the Company's financial statement close process; (3) controls over the capitalization and depreciation of property and equipment; (4) the estimation of liabilities related to medical malpractice insurance and (5) entity level controls, as more fully described in management's assessment. These material weaknesses were considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2007 financial statements, and this report does not affect our report dated March 31, 2008 on those financial statements.

In our opinion, because of the effect of the material weaknesses described above on the achievement of the objectives of the control criteria, RadNet has not maintained effective internal control over financial reporting as of December 31, 2007, based on the COSO criteria.

/s/ Ernst & Young LLP

Los Angeles, California
March 31, 2008

-82-

ITEM 9B. OTHER INFORMATION.

None

PART III

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

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

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 "Executive Compensation - Section 16(a) Beneficial Ownership Reporting Compliance" and "Corporate Governance - Board Committees and Related Matters" in the Company's definitive Proxy Statement for the Annual Meeting of Shareholders to be held on May 12, 2008 (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

The information required by this item is incorporated by reference to the sections entitled "Executive Compensation" and "Compensation Committee" 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 "Beneficial Ownership of Common Stock" and "Executive Compensation - Equity Compensation Plan Information" 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 "Executive Compensation - Certain Relationships and Related Transactions" and "Corporate Governance - Affirmative Determinations Regarding Director Independence and Other Matters" 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.

-83-

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

PAGE NO.

(a) Financial Statements - The following financial statements

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

are filed herewith:

| | |
|---|----------|
| Reports of Independent Registered Public Accounting Firms | 52 to 53 |
| Consolidated Balance Sheets | 54 |
| Consolidated Statements of Operations | 55 |
| Consolidated Statements of Stockholders' Deficit | 56 |
| Consolidated Statements of Cash Flows | 57 |
| Notes to Consolidated Financial Statements | 58 to 79 |

(b) Financial Statements Schedules

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.

-84-

RADNET, INC. AND SUBSIDIARIES
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

| | BALANCE AT BEGINNING OF YEAR | CHARGES AGAINST INCOME | DEDUCTIONS FROM RESERVE | BALANCE AT END OF YEAR |
|---|------------------------------------|------------------------------|----------------------------|------------------------------|
| | ----- | ----- | ----- | ----- |
| Year Ended December 31, 2007 | | | | |
| Accounts Receivable-Allowance for Bad Debts | \$ 8,486 | \$ 27,467 | \$ 24,382 | \$ 11,571 |
| Two Months Ended December 31, 2006 | | | | |
| Accounts Receivable-Allowance for Bad Debts | \$ 1,490 | \$ 3,907 | \$ (3,087) | \$ 2,310 |
| Year Ended October 31, 2006 | | | | |
| Accounts Receivable-Allowance for Bad Debts | \$ 980 | \$ 7,626 | \$ 7,116 | \$ 1,540 |
| Year Ended October 31, 2005 | | | | |
| Accounts Receivable-Allowance for Bad Debts | \$ 741 | \$ 4,929 | \$ 4,690 | \$ 980 |

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

-85-

| 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 |
| 3.1.1 | Certificate of Incorporation as amended |

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

| | |
|-------|--|
| 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 |
| 3.2 | 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* |
| 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 |

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

- 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
- 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 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 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.
- 14 Code of Financial Ethics

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

21 List of Subsidiaries
 23.1 Consent of Registered Independent Public Accounting Firm

-87-

| EXHIBIT NO. ----- | DESCRIPTION OF EXHIBIT ----- |
|----------------------|---|
| 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.
 - (AA) Incorporated by reference to exhibit filed with Registrant's Registration Statement on Form S-3 File 33-73150.
 - (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 29, 2004.

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

- (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.
- (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) Filed herewith.

-88-

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

RADNET, INC.

Date: March 31, 2008

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

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

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 31, 2008

By /s/ MARVIN S. CADWELL

MARVIN S. CADWELL, DIRECTOR

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

Date: March 31, 2008

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

JOHN V. CRUES, III, M.D., DIRECTOR

Date: March 31, 2008

By /s/ NORMAN R. HAMES

NORMAN R. HAMES, DIRECTOR

Date: March 31, 2008

By /s/ DAVID L. SWARTZ

DAVID L. SWARTZ, DIRECTOR

Date: March 31, 2008

By /s/ LAWRENCE L. LEVITT

LAWRENCE L. LEVITT, DIRECTOR

Date: March 31, 2008

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

MICHAEL L. SHERMAN, M.D., DIRECTOR

Date: March 31, 2008

By /s/ MARK D. STOLPER

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

Date: March 31, 2008