RadNet, Inc.
Form 10-Q
August 10, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2009

OR

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

For the transition period from to

Commission File Number 0-19019

RadNet, Inc.
(Exact name of registrant as specified in charter)

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

(310) 478-7808
(Registrant’s telephone number, including area code)

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

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

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

Large accelerated filer ¨	Accelerated filer x	Non-accelerated filer ¨ (do not check if a smaller reporting company)	Smaller reporting company ¨

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

The number of shares of the registrant’s common stock outstanding on July 31, 2009, was 35,924,279 shares.

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PART I – FINANCIAL INFORMATION

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

	June 30, 2009 (unaudited)	December 31, 2008
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$-	$-
Accounts receivable, net	94,617	96,097
Refundable income taxes	151	103
Prepaid expenses and other current assets	10,343	12,370
Total current assets	105,111	108,570
PROPERTY AND EQUIPMENT, NET	184,643	193,104
OTHER ASSETS		
Goodwill	105,378	105,278
Other intangible assets	55,488	56,861
Deferred financing costs, net	9,567	10,907
Investment in joint ventures	18,677	17,637
Deposits and other	3,424	3,752
Total assets	$482,288	$496,109
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$65,363	$81,175
Due to affiliates	3,538	5,015
Notes payable	7,265	5,501
Current portion of deferred rent	473	390
Obligations under capital leases	15,943	15,064
Total current liabilities	92,582	107,145
LONG-TERM LIABILITIES		
Line of credit	1,406	1,742
Deferred rent, net of current portion	8,287	7,996
Deferred taxes	277	277
Notes payable, net of current portion	419,975	419,735
Obligations under capital lease, net of current portion	20,126	24,238
Other non-current liabilities	17,058	16,006
Total liabilities	559,711	577,139
COMMITMENTS AND CONTINGENCIES		
EQUITY DEFICIT		
Common stock - $.0001 par value, 200,000,000 shares authorized; 35,924,279 and 35,911,474 shares issued and outstanding at June 30, 2009 and December 31, 2008, respectively	4	4
Paid-in-capital	155,230	153,006
Accumulated other comprehensive loss	(3,821)	(6,396)

Accumulated deficit	(228,900)	(227,722)
Total Radnet, Inc.'s equity deficit	(77,487)	(81,108)
Noncontrolling interests	64	78
Total equity deficit	(77,423)	(81,030)
Total liabilities and equity deficit	$482,288	$496,109

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
NET REVENUE	$131,146	$126,559	$259,149	$240,456
OPERATING EXPENSES				
Operating expenses	99,716	97,886	196,729	186,852
Depreciation and amortization	13,212	14,071	26,386	26,540
Provision for bad debts	8,369	7,088	16,343	13,575
Loss (gain) on sale of equipment	277	(38)	303	(30)
Severance costs	340	4	357	35
Total operating expenses	121,914	119,011	240,118	226,972
INCOME FROM OPERATIONS	9,232	7,548	19,031	13,484
OTHER EXPENSES (INCOME)				
Interest expense	12,326	12,516	25,348	26,104
Gain on bargain purchase	(1,387)	-	(1,387)	-
Other expenses (income)	1,044	(21)	1,241	(53)
Total other expenses	11,983	12,495	25,202	26,051
LOSS BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF JOINT VENTURES	(2,751)	(4,947)	(6,171)	(12,567)
Provision for income taxes	(13)	(14)	(50)	(137)
Equity in earnings of joint ventures	2,453	2,837	5,088	5,129
NET LOSS	(311)	(2,124)	(1,133)	(7,575)
Net income attributable to noncontrolling interests	25	25	45	49
NET LOSS ATTRIBUTABLE TO RADNET, INC. COMMON SHAREHOLDERS	$(336)	$(2,149)	$(1,178)	$(7,624)
BASIC AND DILUTED NET LOSS PER SHARE ATTRIBUTABLE TO RADNET, INC. COMMON SHAREHOLDERS	$(0.01)	$(0.06)	$(0.03)	$(0.21)
WEIGHTED AVERAGE SHARES OUTSTANDING				
Basic and diluted	35,924,279	35,671,554	35,920,246	35,616,298

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

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RADNET, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF EQUITY DEFICIT
(IN THOUSANDS EXCEPT SHARE DATA)
(unaudited)

	Common Stock Shares	Common Stock Amount	Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Radnet, Inc.'s Equity Deficit	Non-controlling Interests	Total Equity Deficit
BALANCE - JANUARY 1, 2009	35,911,474	$4	$153,006	$ (227,722)	$ (6,396)	$(81,108)	$ 78	$(81,030)
Issuance of common stock upon exercise of options/warrants	12,805		-	-	-	-	-	-
Share-based compensation	-	-	2,224	-	-	2,224	-	2,224
Dividends paid to noncontrolling interests	-	-	-	-	-	-	(59)	(59)
Change in fair value of cash flow hedge	-	-	-	-	2,575	2,575	-	2,575
Net income (loss)				(1,178)		(1,178)	45	(1,133)
Comprehensive income	-	-	-	-	-	1,397	45	1,442
BALANCE - JUNE 30, 2009	35,924,279	$4	$155,230	$ (228,900)	$ (3,821)	$(77,487)	$ 64	$(77,423)

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

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

	Six Months Ended June 30, 2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (1,133)	$ (7,575)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	26,386	26,540
Provision for bad debts	16,343	13,575
Dividends paid to noncontrolling interests	(59)	(155)
Equity in earnings of joint ventures	(5,088)	(5,129)
Distributions from joint ventures	4,363	3,452
Deferred rent amortization	374	2,801
Amortization of deferred financing cost	1,340	1,192
Net loss (gain) on disposal of assets	303	(30)
Gain on bargain purchase	(1,387)	-
Share-based compensation	2,224	1,056
Changes in operating assets and liabilities, net of assets acquired and liabilities assumed in purchase transactions:		
Accounts receivable	(13,863)	(23,697)
Other current assets	2,211	(458)
Other assets	328	(369)
Accounts payable and accrued expenses	478	(199)
Net cash provided by operating activities	32,820	11,004
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of imaging facilities	(3,917)	(23,528)
Proceeds from sale of imaging facilities	650	-
Purchase of property and equipment	(15,594)	(18,190)
Proceeds from sale of equipment	-	65
Purchase of equity interest in joint ventures	(315)	(728)
Net cash used in investing activities	(19,176)	(42,381)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on notes and leases payable	(11,666)	(9,104)
Proceeds from borrowings on notes payable	-	35,000
Deferred financing costs	-	(4,277)
Net (payments) proceeds on line of credit	(336)	9,449
Distributions to counterparties of cash flow hedges	(1,642)	-
Proceeds from issuance of common stock	-	291
Net cash (used in) provided by financing activities	(13,644)	31,359
NET DECREASE IN CASH	-	(18)
CASH AND CAH EQUIVALENTS, beginning of period	-	18

CASH AND CASH EQUIVALENTS, end of period		-		-
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION				
Cash paid during the period for interest	$	21,832	$	23,787

The accompanying notes are an integral part of these financial statements

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

Supplemental Schedule of Non-Cash Investing and Financing Activities

We entered into capital leases and equipment notes for approximately $10.4 million and $15.7 million, excluding capital leases assumed in acquisitions, during the six months ended June 30, 2009 and 2008, respectively. We also acquired equipment for approximately $2.9 million and $17.5 million during the six months ended June 30, 2009 and 2008 that we had not paid for as of June 30, 2009 and 2008, respectively. The offsetting amount due was recorded in our consolidated balance sheet under accounts payable and accrued expenses.

We record the change in fair value of the effective portion of our interest rate swaps that are designated as cash flow hedges to accumulated other comprehensive loss. As such, we recorded unrealized losses of $485,000 and of $557,000, for the six months ended June 30, 2009 and 2008, respectively.

As discussed in Note 5, we entered into interest rate swap modifications in the first quarter of 2009. These modifications include a significant financing element and, as such, all cash inflows and outflows subsequent to the date of modification are presented as financing activities.

Detail of investing activity related to acquisitions can be found in Note 3.

RADNET, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

NOTE 1 – NATURE OF BUSINESS AND BASIS OF PRESENTATION

RadNet, Inc. is incorporated in the state of Delaware. We operate a group of regional networks comprised of 175 diagnostic imaging facilities located in seven states with operations primarily in California, Maryland, the Treasure Coast area of Florida, Kansas, Delaware, New Jersey and the Finger Lakes (Rochester) and Hudson Valley areas of New York. We provide diagnostic imaging services including magnetic resonance imaging (MRI), computed tomography (CT), positron emission tomography (PET), nuclear medicine, mammography, ultrasound, diagnostic radiology, or X-ray, and fluoroscopy. The Company’s operations comprise a single segment for financial reporting purposes.

The consolidated financial statements also include the accounts of RadNet Management, Inc. ("or RadNet Management") and Beverly Radiology Medical Group III, a professional partnership ("BRMG"). The consolidated financial statements also include RadNet Sub, Inc., RadNet Management I, Inc., RadNet Management II, Inc., SoCal MR Site Management, Inc., Radiologix, Inc., RadNet Management Imaging Services, Inc., Delaware Imaging Partners, Inc. and Diagnostic Imaging Services, Inc. (DIS), all wholly owned subsidiaries of RadNet Management. All of these affililiated entities are referred to collectively in this report as "Radnet", "we", "us" or the "Company".

Howard G. Berger, M.D. is our President and Chief Executive Officer, a member of our Board of Directors and owns approximately 18% of our outstanding common stock. Dr. Berger also owns, indirectly, 99% of the equity interests in BRMG. BRMG provides all of the professional medical services at the majority of our facilities located in California under a management agreement with us, and contracts with various other independent physicians and physician groups to provide the professional medical services at most of our other California facilities. We generally obtain professional medical services from BRMG in California, rather than provide such services directly or through subsidiaries, in order to comply with California's prohibition against the corporate practice of medicine. However, as a result of our close relationship with Dr. Berger and BRMG, we believe that we are able to better ensure that medical service is provided at our California facilities in a manner consistent with our needs and expectations and those of our referring physicians, patients and payors than if we obtained these services from unaffiliated physician groups. BRMG is a partnership of Pronet Imaging Medical Group, Inc. (99%), Breastlink Medical Group, Inc. (100%) and Beverly Radiology Medical Group, Inc. (99%), each of which are 99% or 100% owned by Dr. Berger. RadNet provides non-medical, technical and administrative services to BRMG for which it receives a management fee, per the management agreement. Through the management agreement and our relationship with Dr. Berger, we have exclusive authority over all non-medical decision making related to the ongoing business operations of BRMG. Based on the provisions of the agreement, we have determined that BRMG is a variable interest entity, and that we are the primary beneficiary as defined in Financial Accounting Standards Board (FASB) Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51 (FIN 46(R)), and consequently, we consolidate the revenue and expenses of BRMG. All intercompany balances and transactions have been eliminated in consolidation.

At a portion of our centers in California and at all of the centers which are located outside of California, we have entered into long-term contracts with independent radiology groups in the area to provide physician services at those facilities. These third party radiology practices provide professional services, including supervision and interpretation of diagnostic imaging procedures, in our diagnostic imaging centers. The radiology practices maintain full control over the provision of professional services. The contracted radiology practices generally have outstanding physician and practice credentials and reputations; strong competitive market positions; a broad sub-specialty mix of physicians;

a history of growth and potential for continued growth. In these facilities we enter into long-term agreements with radiology practice groups (typically 40 years). Under these arrangements, in addition to obtaining technical fees for the use of our diagnostic imaging equipment and the provision of technical services, we provide management services and receive a fee based on the practice group's professional revenue, including revenue derived outside of our diagnostic imaging centers. We own the diagnostic imaging equipment and, therefore, receive 100% of the technical reimbursements associated with imaging procedures. The radiology practice groups retain the professional reimbursements associated with imaging procedures after deducting management service fees. Our management service fees are included in net revenue in the consolidated statement of operations and totaled $7.7 million and $7.9 million for the three months ended June 30, 2009 and 2008, respectively, and $15.1 million and $16.2 million for the six months ended June 30, 2009 and 2008, respectively. We have no financial controlling interest in the independent radiology practices, as defined in EITF 97-2; accordingly, we do not consolidate the financial statements of those practices in our consolidated financial statements.

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X and, therefore, do not include all information and footnotes necessary for a fair presentation of financial position, results of operations and cash flows in conformity with U.S. generally accepted accounting principles complete financial statements; however, in the opinion of our management, all adjustments consisting of normal recurring adjustments necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods ended June 30, 2009 and 2008 have been made. The results of operations for any interim period are not necessarily indicative of the results for a full year. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes thereto contained in our Annual Report on Form 10-K for the year ended December 31, 2008.

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

Liquidity and Capital Resources

We had a working capital balance of $12.5 million and $1.4 million at June 30, 2009 and December 31, 2008, respectively. We had net losses attributable to Radnet, Inc.'s common shareholders of $336,000 and $2.1 million for the three months ended June 30, 2009 and 2008, respectively, and $1.2 million and $7.6 million for the six months ended June 30, 2009 and 2008, respectively. We also had a Radnet, Inc. shareholder equity deficit of $77.4 million and $81.0 million at June 30, 2009 and December 31, 2008, respectively.

We operate in a capital intensive, high fixed-cost industry that requires significant amounts of capital to fund operations. In addition to operations, we require a significant amount of capital for the initial start-up and development expense of new diagnostic imaging facilities, the acquisition of additional facilities and new diagnostic imaging equipment, and to service our existing debt and contractual obligations. Because our cash flows from operations have been insufficient to fund all of these capital requirements, we have depended on the availability of financing under credit arrangements with third parties.

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

§ Maximizing performance at our existing facilities;

§ Focusing on profitable contracting;

§ Expanding MRI, CT and PET applications;

§ Optimizing operating efficiencies; and

§ Expanding our networks.

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

NOTE 2 – RECENT AND PENDING ACCOUNTING STANDARDS AND PRONOUNCEMENTS

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations (SFAS 141(R)), which replaces SFAS No. 141. SFAS 141(R) introduces significant changes in the accounting for and reporting of business acquisitions. SFAS 141(R) changes how business acquisitions are accounted for and will impact financial statements at the acquisition date and in subsequent periods. Pursuant to SFAS 141(R), an acquiring entity is required to recognize all of the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value, with limited exceptions, and all transaction related costs are expensed. Subsequent changes, if any, to the acquisition-date fair value that are the result of facts and circumstances that did not exist as of the acquisition date will be recognized as part of on-going operations. In addition, SFAS 141(R) will have an impact on the goodwill impairment test associated with acquisitions. The provisions of SFAS 141(R) are effective for business combinations for which the acquisition date is on or after January 1, 2009. The Company applied the provisions of SFAS 141(R) to the facility acquisitions discussed in Note 3.

SFAS 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51, 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 accounting for transactions between an entity and minority interests by requiring they be treated as equity transactions. The Company adopted the provisions of SFAS 160 on January 1,