

RadNet, Inc.
Form 10-Q
August 09, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2012

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)

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

Delaware **13-3326724**
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

1510 Cotner Avenue
Los Angeles, California 90025
(Address of principal executive offices) (Zip Code)

(310) 478-7808

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities and Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 Non-accelerated filer Smaller reporting company
(do not check if a smaller reporting company)

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

The number of shares of the registrant's common stock outstanding on August 3, 2012, was 38,340,482 shares.

RADNET, INC.

INDEX

	Page
PART I – FINANCIAL INFORMATION	
ITEM 1. Condensed Consolidated Financial Statements	
Condensed Consolidated Balance Sheets at June 30, 2012 and December 31, 2011	3
Condensed Consolidated Statements of Income for the Three and Six Months ended June 30, 2012 and 2011	4
Condensed Consolidated Statements of Comprehensive Income for the Three and Six Months ended June 30, 2012 and 2011	5
Condensed Consolidated Statement of Equity Deficit for the Six Months ended June 30, 2012	6
Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2012 and 2011	7
Notes to Condensed Consolidated Financial Statements	9
ITEM 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	29
ITEM 3. Quantitative and Qualitative Disclosures About Market Risk	43
ITEM 4. Controls and Procedures	43
PART II – OTHER INFORMATION	
ITEM 1. Legal Proceedings	44
ITEM 1A. Risk Factors	44
ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds	44
ITEM 3. Defaults Upon Senior Securities	44

ITEM 4. Mine Safety Disclosures	44
ITEM 5. Other Information	44
ITEM 6. Exhibits	44
SIGNATURES	45
INDEX TO EXHIBITS	46

PART I - FINANCIAL INFORMATION**RADNET, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****(IN THOUSANDS EXCEPT SHARE DATA)**

	June 30, 2012 (unaudited)	December 31, 2011
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 234	\$2,455
Accounts receivable, net	131,443	128,432
Asset held for sale	–	2,300
Prepaid expenses and other current assets	21,171	19,140
Total current assets	152,848	152,327
PROPERTY AND EQUIPMENT, NET	219,044	215,527
OTHER ASSETS		
Goodwill	166,160	159,507
Other intangible assets	51,483	53,105
Deferred financing costs, net	11,948	13,490
Investment in joint ventures	23,119	22,326
Deposits and other	3,007	2,906
Total assets	\$ 627,609	\$619,188
LIABILITIES AND EQUITY DEFICIT		
CURRENT LIABILITIES		
Accounts payable, accrued expenses and other	\$ 109,039	\$103,101
Due to affiliates	4,490	3,762
Deferred revenue	1,008	1,076
Current portion of notes payable	6,275	6,608
Current portion of deferred rent	1,023	999
Current portion of obligations under capital leases	4,607	6,834
Total current liabilities	126,442	122,380
LONG-TERM LIABILITIES		
Deferred rent, net of current portion	14,965	12,407
Deferred taxes	277	277
Line of credit	59,500	58,000
Notes payable, net of current portion	481,267	484,046
Obligations under capital lease, net of current portion	2,282	3,338

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

Other non-current liabilities	7,834	8,547
Total liabilities	692,567	688,995

COMMITMENTS AND CONTINGENCIES

EQUITY DEFICIT

Common stock - \$.0001 par value, 200,000,000 shares authorized; 38,340,482, and 37,426,460 shares issued and outstanding at June 30, 2012 and December 31, 2011, respectively	4	4
Paid-in-capital	167,385	165,796
Accumulated other comprehensive loss	(369)	(946)
Accumulated deficit	(232,775)	(235,610)
Total RadNet, Inc.'s equity deficit	(65,755)	(70,756)
Noncontrolling interests	797	949
Total equity deficit	(64,958)	(69,807)
Total liabilities and equity deficit	\$ 627,609	\$ 619,188

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

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

	Three Months Ended		Six Months Ended	
	June 30,	2011	June 30,	2011
	2012		2012	
NET SERVICE FEE REVENUE				
Service fee revenue, net of contractual allowances and discounts	\$ 171,746	\$ 153,370	\$ 340,246	\$ 297,453
Provision for bad debts	\$(6,395)	) (5,671)	) (12,879)	) (10,702)
Net service fee revenue	165,351	147,699	327,367	286,751
OPERATING EXPENSES				
Cost of operations	136,554	119,113	271,954	234,941
Depreciation and amortization	14,893	14,296	29,785	28,217
Loss (gain) on sale and disposal of equipment	276	(1,356)	) 300	(1,597)
Severance costs	163	509	612	654
Total operating expenses	151,886	132,562	302,651	262,215
INCOME FROM OPERATIONS	13,465	15,137	24,716	24,536
OTHER EXPENSES				
Interest expense	13,475	13,150	27,042	26,065
Other income	(1,344)	) (689)	) (2,491)	) (2,060)
Total other expenses	12,131	12,461	24,551	24,005
INCOME BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF JOINT VENTURES	1,334	2,676	165	531
Provision for income taxes	(421)	) (337)	) (666)	) (484)
Equity in earnings of joint ventures	1,986	1,267	3,248	2,751
NET INCOME	2,899	3,606	2,747	2,798
Net (loss) income attributable to noncontrolling interests	(47)	) 85	(88)	) 153
NET INCOME ATTRIBUTABLE TO RADNET, INC. COMMON STOCKHOLDERS	\$2,946	\$3,521	\$2,835	\$2,645
BASIC NET INCOME PER SHARE ATTRIBUTABLE TO RADNET, INC. COMMON STOCKHOLDERS	\$0.08	\$0.09	\$0.08	\$0.07
DILUTED NET INCOME PER SHARE ATTRIBUTABLE TO RADNET, INC. COMMON	\$0.07	\$0.09	\$0.07	\$0.07

STOCKHOLDERS

WEIGHTED AVERAGE SHARES OUTSTANDING

Basic	37,761,316	37,357,840	37,715,723	37,308,038
Diluted	39,430,716	39,820,163	39,215,632	39,376,958

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

RADNET, INC. AND SUBSIDIARIES**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(IN THOUSANDS)****(unaudited)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
NET INCOME	\$2,946	\$3,521	\$2,835	\$2,645
Foreign currency translation adjustments	20	30	26	35
Reclassification of net cash flow hedge losses included in net income during the period	275	306	551	612
COMPREHENSIVE INCOME	3,241	3,857	3,412	3,292
Less comprehensive (loss) income attributable to non-controlling interests	(47)	85	(88)	153
COMPREHENSIVE INCOME ATTRIBUTABLE TO RADNET, INC. COMMON STOCKHOLDERS	\$3,194	\$3,942	\$3,324	\$3,445

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

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

	Common Stock	Paid-in	Accumulated	Accumulated	Total	Noncontrolling	Total	
	Shares	Amount	Capital	Deficit	Other Comprehensive Loss	RadNet, Inc.'s Equity Deficit	Interests Deficit	
BALANCE - JANUARY 1, 2012	37,426,460	\$ 4	\$ 165,796	\$(235,610)	\$ (946)	\$(70,756)	\$ 949	\$(69,807)
Issuance of common stock upon exercise of options/warrants	74,022	—	—	—	—	—	—	—
Stock-based compensation	—	—	1,706	—	—	1,706	—	1,706
Purchase of non-controlling interests	—	—	(117)	—	—	(117)	—	(117)
Issuance of restricted stock	840,000	—	—	—	—	—	—	—
Dividends paid to noncontrolling interests	—	—	—	—	—	—	(64)	(64)
Change in cumulative foreign currency translation adjustment	—	—	—	—	26	26	—	26
Change in fair value of cash flow hedge from prior periods reclassified to earnings	—	—	—	—	551	551	—	551
Net income (loss)	—	—	—	2,835	—	2,835	(88)	2,747
BALANCE - JUNE 30, 2012	38,340,482	\$ 4	\$ 167,385	\$(232,775)	\$ (369)	\$(65,755)	\$ 797	\$(64,958)

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

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

	Six Months Ended	
	June 30,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$2,747	\$2,798
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	29,785	28,217
Provision for bad debt	12,879	10,702
Equity in earnings of joint ventures	(3,248)	(2,751)
Distributions from joint ventures	3,375	2,370
Deferred rent amortization	2,582	1,310
Amortization of deferred financing cost	1,542	1,467
Amortization of bond discount	132	119
Loss (gain) on sale and disposal of equipment	300	(1,597)
Amortization of cash flow hedge	551	612
Stock-based compensation	1,706	1,790
Changes in operating assets and liabilities, net of assets acquired and liabilities assumed in purchase transactions:		
Accounts receivable	(14,097)	(30,514)
Other current assets	(1,887)	(1,363)
Other assets	(29)	(227)
Deferred revenue	(68)	(230)
Accounts payable, accrued expenses and other	4,547	10,164
Net cash provided by operating activities	40,817	22,867
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of imaging facilities	(9,917)	(11,529)
Purchase of property and equipment	(25,347)	(24,915)
Proceeds from insurance claims on damaged equipment	—	2,469
Proceeds from sale of equipment	446	291
Proceeds from sale of imaging facilities		