

RadNet, Inc.
Form 10-Q
August 09, 2010

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, 2010

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 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 No

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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 9, 2010, was 36,979,725 shares.

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PART I - FINANCIAL INFORMATION

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

	June 30, 2010 (unaudited)	December 31, 2009
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 20,476	\$ 10,094
Accounts receivable, net	94,351	87,825
Prepaid expenses and other current assets	13,068	9,990
Total current assets	127,895	107,909
PROPERTY AND EQUIPMENT, NET	187,924	182,571
OTHER ASSETS		
Goodwill	124,178	106,502
Other intangible assets	52,852	54,313
Deferred financing costs, net	16,544	8,229
Investment in joint ventures	16,815	18,741
Deposits and other	2,792	2,406
Total assets	\$ 529,000	\$ 480,671
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 72,556	\$ 69,641
Due to affiliates	3,450	7,456
Current portion of notes payable	8,539	6,927
Current portion of deferred rent	654	560
Obligations under capital leases	11,323	14,121
Total current liabilities	96,522	98,705
LONG-TERM LIABILITIES		
Deferred rent, net of current portion	10,363	8,920
Deferred taxes	277	277
Notes payable, net of current portion	481,934	416,699
Obligations under capital leases, net of current portion	8,628	13,568
Other non-current liabilities	19,611	17,263
Total liabilities	617,335	555,432
COMMITMENTS AND CONTINGENCIES		
EQUITY DEFICIT		
Common stock - \$.0001 par value, 200,000,000 shares authorized; 36,979,725 and 36,259,279 shares issued and outstanding at June 30, 2010 and December 31, 2009, respectively	4	4
Paid-in-capital	160,225	156,758
Accumulated other comprehensive loss	(2,754)	(1,588)
Accumulated deficit	(245,856)	(229,989)
Total Radnet, Inc.'s equity deficit	(88,381)	(74,815)
Noncontrolling interests	46	54

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Total equity deficit	(88,335)	(74,761)
Total liabilities and equity deficit	\$ 529,000	\$ 480,671

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
NET REVENUE	\$ 138,951	\$ 131,146	\$ 263,129	\$ 259,149
OPERATING EXPENSES				
Operating expenses	106,205	99,716	204,844	196,729
Depreciation and amortization	13,876	13,212	27,151	26,386
Provision for bad debts	8,468	8,369	16,145	16,343
Loss on sale of equipment	51	277	155	303
Severance costs	435	340	567	357
Total operating expenses	129,035	121,914	248,862	240,118
INCOME FROM OPERATIONS	9,916	9,232	14,267	19,031
OTHER EXPENSES				
Interest expense	12,729	12,578	22,696	26,171
Loss on extinguishment of debt	9,871	-	9,871	-
Gain on bargain purchase	-	(1,387)	-	(1,387)
Other expenses	1,150	792	1,150	418
Total other expenses	23,750	11,983	33,717	25,202
LOSS BEFORE INCOME TAXES AND EQUITY				
IN EARNINGS OF JOINT VENTURES	(13,834)	(2,751)	(19,450)	(6,171)
Benefit from (provision for) income taxes	128	(13)	(206)	(50)
Equity in earnings of joint ventures	1,971	2,453	3,832	5,088
NET LOSS	(11,735)	(311)	(15,824)	(1,133)
Net income attributable to noncontrolling interests	21	25	43	45
NET LOSS ATTRIBUTABLE TO RADNET, INC. COMMON STOCKHOLDERS	\$(11,756)	\$(336)	\$(15,867)	\$(1,178)
BASIC AND DILUTED NET LOSS PER SHARE ATTRIBUTABLE TO RADNET, INC. COMMON STOCKHOLDERS				
	\$(0.32)	\$(0.01)	\$(0.43)	\$(0.03)
WEIGHTED AVERAGE SHARES OUTSTANDING				
Basic and diluted	36,916,905	35,924,279	36,641,953	35,920,246

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 Shares	Common Stock Amount	Paid-in Capital	Accumulated Deficit	Accumulated Comprehensive Other Loss	Total Radnet, Inc.'s Equity Deficit	Non- controlling Interests	Total Equity Deficit
BALANCE - JANUARY 1, 2010	36,259,279	\$4	\$156,758	\$ (229,989)	\$ (1,588)	\$(74,815)	\$ 54	\$(74,761)
Issuance of common stock to shareholders of Union Imaging	75,000	-	153	-	-	153	-	153
Issuance of common stock to shareholders of Truxtun Medical Group	375,000	-	1,238	-	-	1,238	-	1,238
Issuance of common stock upon exercise of options/warrants	270,446	-	49	-	-	49	-	49
Stock-based compensation	-	-	2,027	-	-	2,027	-	2,027
Distributions paid to noncontrolling interests	-	-	-	-	-	-	(51)	(51)
Change in fair value of interest rate swap from prior periods reclassified to earnings	-	-	-	-	306	306	-	306
Change in fair value of interest rate swap	-	-	-	-	(1,472)	(1,472)	-	(1,472)
Net income (loss)				(15,867)		(15,867)	43	(15,824)
Comprehensive loss				-	-	(17,033)	43	(16,990)
BALANCE - JUNE 30, 2010	36,979,725	\$4	\$160,225	\$ (245,856)	\$ (2,754)	\$(88,381)	\$ 46	\$(88,335)
Comprehensive income for the six months ended June 30, 2009:								
Net loss						\$(1,178)		
Change in fair value of cash flow hedge						2,575		
Comprehensive income						\$1,397		

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,	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$(15,824)	\$(1,133)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	27,151	26,386
Provision for bad debts	16,145	16,343
Equity in earnings of joint ventures	(3,832)	(5,088)
Distributions from joint ventures	5,758	4,363
Deferred rent amortization	1,537	374
Deferred financing cost interest expense	1,365	1,340
Amortization of bond discount	51	-
Loss on sale of equipment	155	303
Loss on extinguishment of debt	9,871	-
Gain on bargain purchase	-	(1,387)
Stock-based compensation	2,027	2,224
Changes in operating assets and liabilities, net of assets acquired and liabilities assumed in purchase transactions:		
Accounts receivable	(18,967)	(13,863)
Other current assets	(2,990)	2,211
Other assets	(386)	328
Accounts payable and accrued expenses	435	478
Net cash provided by operating activities	22,496	32,879
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of imaging facilities	(29,809)	(3,917)
Proceeds from sale of imaging facilities	-	650
Purchase of property and equipment	(20,818)	(15,594)
Purchase of equity interest in joint ventures	-	(315)
Net cash used in investing activities	(50,627)	(19,176)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on notes and leases payable	(11,334)	(11,666)
Repayment of debt	(412,000)	-
Proceeds from borrowings	482,360	-
Deferred financing costs	(17,239)	-
Distributions paid to noncontrolling interests	(51)	(59)
Payments on line of credit	-	(336)
Payments to counterparties of cash flow hedges	(3,272)	(1,642)
Proceeds from issuance of common stock	49	-
Net cash provided by (used in) financing activities	38,513	(13,703)
NET INCREASE IN CASH AND CASH EQUIVALENTS	10,382	-

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CASH AND CASH EQUIVALENTS, beginning of period	10,094	-
CASH AND CASH EQUIVALENTS, end of period	\$20,476	\$-

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid during the period for interest	\$16,857	\$21,832
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The accompanying notes are an integral part of these financial statements

RADNET, INC. AND SUBSIDIARIES
CONDENSED 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 \$32,000 and \$10.4 million, excluding capital leases assumed in acquisitions, during the six months ended June 30, 2010 and 2009, respectively. We also acquired equipment for approximately \$11.2 million and \$2.9 million during the six months ended June 30, 2010 and 2009, respectively, that we had not paid for as of June 30, 2010 and 2009, respectively. The offsetting amount due was recorded in our consolidated balance sheet under accounts payable and accrued expenses.

As discussed in Note 2, 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 4.

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

NOTE 1 – NATURE OF BUSINESS AND BASIS OF PRESENTATION

At June 30, 2010, we operated a group of regional networks comprised of 191 diagnostic imaging facilities located in seven states with operations primarily in California, Maryland, Florida, Kansas, Delaware, New Jersey and 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, fluoroscopy and other related procedures. The Company's operations comprise a single segment for financial reporting purposes.

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

Accounting Standards Codification Section 810-10-15-14 stipulates that generally any entity with a) insufficient equity to finance its activities without additional subordinated financial support provided by any parties, or b) equity holders that, as a group, lack the characteristics specified in the Codification which evidence a controlling financial interest, is considered a Variable Interest Entity ("VIE"). We consolidate all voting interest entities in which we own a majority voting interest and all VIEs for which we are the primary beneficiary. We determine whether we are the primary beneficiary of a VIE through a qualitative analysis that identifies which variable interest holder has the controlling financial interest in the VIE. The variable interest holder who has both of the following has the controlling financial interest and is the primary beneficiary: (1) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and (2) the obligation to absorb losses of, or the right to receive benefits from, the VIE that could potentially be significant to the VIE. In performing our analysis, we consider all relevant facts and circumstances, including: the design and activities of the VIE, the terms of the contracts the VIE has entered into, the nature of the VIE's variable interests issued and how they were negotiated with or marketed to potential investors, and which parties participated significantly in the design or redesign of the entity.

Howard G. Berger, M.D. is our President and Chief Executive Officer, a member of our Board of Directors and owns approximately 15% 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 employs physicians or 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. Through our management agreement with BRMG we determine the annual budget of BRMG and make all physician employment decisions. BRMG has insignificant operating assets and liabilities, and de minimis equity. Through the management agreement with us, all of BRMG's cash flows are transferred to us. We have determined that BRMG is a variable interest entity, and that we are the primary beneficiary, and consequently, we consolidate the revenue and expenses of BRMG. BRMG recognized \$25.7 million and \$23.5 million of net revenues for the six months ended June 30, 2010 and 2009, respectively, and \$24.5 million and \$22.4 million of operating expenses for the six months ended June 30, 2010 and 2009, respectively. RadNet recognized \$89.5 million and \$86.9 million of net revenues for management services provided to BRMG which relate primarily to the technical portion of total billed revenue. The cash flows of the BRMG are included in the accompanying consolidated statements of cash flows. All intercompany balances and transactions have been eliminated in consolidation.

The creditors of BRMG do not have recourse to our general credit and there are no other arrangements that could expose us to losses. However, BRMG is managed to recognize no net income or net loss and, therefore, RadNet may be required to provide financial support to cover any operating expenses in excess of operating revenues. BRMG is a guarantor of the New Credit Facilities described below under "Liquidity and Capital Resources."

In June 2009, the Financial Accounting Standards Board (FASB) issued new guidance which made significant changes to the model for determining who should consolidate a VIE and addressed how often this assessment should be performed. The guidance was effective for us on January 1, 2010 (see Note 3).

At the remaining 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. We have no financial controlling interest in the independent (non-BRMG) radiology practices; accordingly, we do not consolidate the financial statements of those practices in our condensed consolidated financial statements.

The accompanying unaudited condensed 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, 2010 and 2009 have been made. The results of operations for any interim period are not necessarily indicative of the results for a full year. These interim condensed 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, 2009.

Liquidity and Capital Resources

We had a working capital balance of \$31.4 million and \$9.2 million at June 30, 2010 and December 31, 2009, respectively. We had a net loss attributable to RadNet, Inc.'s common stockholders of \$11.8 million and \$336,000 for the three months ended June 30, 2010 and 2009, respectively, and \$15.9 million and \$1.2 million for the six months ended June 30, 2010 and 2009, respectively. \$9.9 million of the loss in 2010 relates to extinguishment of debt incurred on April 6, 2010. We also had an equity deficit of \$88.3 million and \$74.8 million at June 30, 2010 and December 31, 2009, 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.

On April 6, 2010 we completed our debt refinancing plan for an aggregate of \$585 million. The debt refinancing plan included the issuance of a \$285 million senior secured term loan due April 6, 2016, a \$100 million senior secured revolving credit facility due April 6, 2015 and \$200 million in aggregate principal amount of senior unsecured notes due April 1, 2018 (the “Notes”). We used \$412.0 million of the proceeds from the debt restructuring to pay off our prior credit facility and an additional \$1.7 million to settle a call premium associated with our prior credit facilities. As a result of this refinancing, we recorded during the three months ended June 30, 2010 a loss on extinguishment of debt of approximately \$9.9 million which is made up of the \$1.7 million call premium, \$7.6 million write-off of deferred loan costs associated with the prior credit facility, as well as \$600,000 of additional debt settlement costs.

At June 30, 2010, the balance of the senior secured term loan was approximately \$284.3 million and the par value of our senior unsecured notes was \$200.0 million.

Just prior to our refinancing discussed above, our outstanding indebtedness included a \$242.0 million senior secured term loan B and a \$170.0 million second lien term loan both with GE Commercial Finance Healthcare Financial Services originally entered into on November 15, 2006 (the “GE Credit Facility”).

New Credit Agreement

Radnet Management, Inc., a wholly-owned subsidiary of RadNet, Inc., entered into a new Credit and Guaranty Agreement (the “New Credit Agreement”) pursuant to which we obtained \$385 million in senior secured bank financing, consisting of a \$285 million, six-year term loan facility and a \$100 million, five-year revolving credit facility (the New Credit Facilities). In connection with the New Credit Facilities, Radnet Management, Inc., terminated the GE Credit Facility.

Interest. The New Credit Facilities bear interest through maturity at a rate determined by adding the applicable margin to either (a) the Base Rate, which is the highest of the (i) Prime Rate, (ii) the rate which is 0.5% in excess of the Federal Funds Effective Rate, (iii) 3.00% and (iv) 1.00% in excess of the one-month Adjusted Eurodollar Rate at such time, or (b) the Adjusted Eurodollar Rate, which is the higher of (i) the London interbank offered rate, adjusted for statutory reserve requirements, for the respective interest period, as determined by the administrative agent and (ii) 2.00%. Applicable margin means (i) (a) with respect to Tranche B Term Loans that are Eurodollar Rate Loans, 3.75% per annum and (b) with respect to Tranche B Term Loans that are Base Rate Loans, 2.75% per annum; and (ii) (a) with respect to Revolving Loans that are Eurodollar Rate Loans, 3.75% per annum and (b) with respect to Revolving Loans and Swing Line Loans that are Base Rate Loans, 2.75% per annum.

Payments. Commencing on June 30, 2010, we are required to make quarterly amortization payments on the term loan facility, each in the amount of \$712,500, with the remaining principal balance paid off at maturity. Under the New Credit Agreement, we are also required to make mandatory prepayments, subject to specified exceptions, from Consolidated Excess Cash Flow, and upon certain events, including, but not limited to, (i) the receipt of net cash proceeds from the sale or other disposition of any property or assets by us or any of our subsidiaries, (ii) the receipt of net cash proceeds from insurance or condemnation proceeds paid on account of any loss of any property or assets of us or any of our subsidiaries, (iii) the receipt of net cash proceeds from the incurrence of indebtedness by us or any of our subsidiaries (other than certain indebtedness otherwise permitted under the loan documents relating to the New Credit Facilities) and (iv) the receipt of net cash proceeds by us or any of our subsidiaries from Extraordinary Receipts, as defined in the New Credit Agreement.

Guarantees and Collateral. The obligations under the New Credit Facilities are guaranteed by us, all of our current and future wholly-owned domestic restricted subsidiaries and certain of our affiliates. The obligations under the New Credit Facilities and the guarantees are secured by a perfected first priority security interest in all of Radnet Management's and the guarantors' tangible and intangible assets, including, but not limited to, pledges of equity interests of Radnet Management and all of our current and future domestic subsidiaries.

Restrictive Covenants. In addition to certain customary covenants, the New Credit Agreement places limits on our ability to declare dividends or redeem or repurchase capital stock, prepay, redeem or purchase debt, incur liens and engage in sale-leaseback transactions, make loans and investments, incur additional indebtedness, amend or otherwise alter debt and other material agreements, engage in mergers, acquisitions and asset sales, enter into transactions with affiliates and alter the business we and our subsidiaries currently conduct.

Financial Covenants. The New Credit Agreement contains financial covenants including a minimum interest coverage ratio, a maximum total leverage ratio and a limit on annual capital expenditures. Failure to comply with these covenants could permit the lenders under the New Credit Facilities to declare all amounts borrowed, together with accrued interest and fees, to be immediately due and payable.

Events of Default. In addition to certain customary events of default, events of default under the New Credit Facilities include failure to pay principal or interest when due, a material breach of any representation or warranty contained in the loan documents, covenant defaults, events of bankruptcy and a change of control.

The Notes

Also on April 6, 2010, we issued \$200 million in aggregate amount of senior unsecured Notes which have a coupon of 10.375% and were issued at a price of 98.680%. The Notes were issued by Radnet Management, Inc. and guaranteed jointly and severally on a senior unsecured basis by us and all of our current and future wholly-owned domestic restricted subsidiaries. The Notes were offered and sold in a private placement exempt from registration under the Securities Act to qualified institutional buyers pursuant to Rule 144A and Regulation S under the Securities Act. The Notes will mature on April 1, 2018, and bear interest at the rate of 10.375% per year. We will pay interest on the Notes on April 1 and October 1, commencing October 1, 2010. The Notes are governed under an indenture agreement with U.S. Bank National Association as trustee. We have agreed to file a registration statement with the Securities and Exchange Commission relating to an offer to exchange The Notes for registered publicly tradable notes that have substantially identical terms as The Notes.

Ranking. The Notes and the guarantees:

- rank equally in right of payment with any existing and future unsecured senior indebtedness of the guarantors;
 - rank senior in right of payment to all existing and future subordinated indebtedness of the Guarantors;
- are effectively subordinated in right of payment to any secured indebtedness of the guarantors (including indebtedness under the New Credit Facilities) to the extent of the value of the assets securing such indebtedness; and
- are structurally subordinated in right of payment to all existing and future indebtedness and other liabilities of any of the Company's subsidiaries that is not a guarantor of the Notes.

Optional Redemption. Radnet Management may redeem the Notes, in whole or in part, at any time on or after April 1, 2014, at the redemption prices specified under the Indenture. Prior to April 1, 2013, we may redeem up to 35% of aggregate principal amount of the Notes issued under the Indenture from the net proceeds of one or more equity offerings at a redemption price equal to 110.375% of the Notes redeemed, plus accrued and unpaid interest, if any. Radnet Management is also permitted to redeem the Notes prior to April 1, 2014, in whole or in part, at a redemption price equal to 100% of the principal amount redeemed, plus a make-whole premium and accrued and unpaid interest, if any.

Change of Control and Asset Sales. If a change in control of Radnet Management occurs, Radnet Management must give holders of the Notes the opportunity to sell their Notes at 101% of their face amount, plus accrued interest. If we or one of our restricted subsidiaries sells assets under certain circumstances, Radnet Management will be required to make an offer to purchase the Notes at their face amount, plus accrued and unpaid interest to the purchase date.

Restrictive Covenants. The Indenture contains covenants that limit, among other things, the ability of us and our restricted subsidiaries, to:

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- pay dividends or make certain other restricted payments or investments;
- incur additional indebtedness and issue preferred stock;
- create liens (other than permitted liens) securing indebtedness or trade payables unless the notes are secured on an equal and ratable basis with the obligations so secured, and, if such liens secure subordinated indebtedness, the notes are secured by a lien senior to such liens;

- sell certain assets or merge with or into other companies or otherwise dispose of all or substantially all of our assets;
- enter into certain transactions with affiliates;
- create restrictions on dividends or other payments by our restricted subsidiaries; and
- create guarantees of indebtedness by restricted subsidiaries.

However, these limitations are subject to a number of important qualifications and exceptions, as described in the Indenture.

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, we will obtain sufficient cash to satisfy our obligations as they become due in the next twelve months.

NOTE 2 – DERIVATIVE INSTRUMENTS

We are exposed to certain risks relating to our ongoing business operations. The primary risk managed by using derivative instruments is interest rate risk. We have entered into interest rate swap agreements to manage interest rate risk exposure. The interest rate swap agreements utilized by us effectively modifies our exposure to interest rate risk by converting our floating-rate debt to a fixed rate basis during the period of the interest rate swap, thus reducing the impact of interest-rate changes on future interest expense.

We designate our interest rate swaps as cash flow hedges of floating-rate borrowings. For interest rate swaps that are designated and qualify as a cash flow hedge (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is initially reported as a component of other comprehensive income, then reclassified into earnings in the same line item associated with the forecasted transaction and in the same period or periods during which the hedged transaction affects earnings (e.g., in “interest expense” when the hedged transactions are interest cash flows associated with floating-rate debt). The remaining gain or loss on the derivative instrument in excess of the cumulative change in the present value of future cash flows of the hedged item, if any (i.e., the ineffectiveness portion), or hedge components excluded from the assessment of effectiveness, are recognized in the statement of operations during the current period.

As part of our 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, designated as a cash flow hedge, 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, also designated as a cash flow hedge, 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.

During the first quarter of 2009 we modified the two interest rate swaps designated as cash flow hedges mentioned above. The modifications, commonly referred to as “blend and extends”, extended the maturity of and re-priced these two interest rate swaps originally executed in 2006 for an additional 36 months, resulting in an estimated annualized cash interest expense savings of \$2.9 million.

On the LIBOR hedge modification for a notional amount of \$107 million of LIBOR exposure, the Company on January 29, 2009 replaced the existing fixed LIBOR rate of 5.02% with a new rate of 3.47% maturing on November 15, 2012. On the second LIBOR hedge modification for a notional amount of \$90 million of LIBOR exposure, the Company, on February 5, 2009, replaced the existing fixed LIBOR rate of 5.03% with a new rate of 3.62% also maturing on November 15, 2012. Both modified interest swaps have been designated as cash flow hedges.

As part of these modifications, the negative fair values of the original interest rate swaps, as well as a certain amount of accrued interest, associated with the original cash flow hedges were incorporated into the fair values of the new modified cash flow hedges. The related Accumulated Other Comprehensive Loss (AOCL) associated with the negative fair values of the original cash flow hedges on their dates of modification, which totaled \$6.1 million, was amortized on a straight-line basis to interest expense through November 15, 2009, the maturity date of the original cash flow hedges.

We document our 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 ASC Topic 815, 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 accumulated other comprehensive loss in the Company's consolidated statement of equity deficit. The remaining gain or loss, if any, is recognized currently in earnings.

As a result of our refinancing completed on April 6, 2010, our interest rate swaps do not match the terms of our current bank debt and so accordingly, we have determined that they are no longer designated as cash flow hedges. Accordingly, all changes in their fair value after April 6, 2010 are, and will continue to be recognized in earnings as other expense.

The related Accumulated Other Comprehensive Loss (AOCL) of \$3.1 million associated with the negative fair values of these interest rate swaps on April 6, 2010, the date of our refinancing, will be amortized on a straight-line basis to interest expense through November 15, 2012, the maturity date of these cash flow hedges. From April 6, 2010 to June 30, 2010, approximately \$306,000 of AOCL was amortized to interest expense.

At June 30, 2010 the negative fair value of these interest rate swaps was \$11.5 million and was classified as other non-current liabilities in our consolidated balance sheet. For the three months ended June 30, 2010, we recognized approximately \$1.2 million in other expense related to the change in fair value of these interest rate swaps from April 6, 2010 to June 30, 2010.

A tabular presentation of the fair value of derivative instruments as of June 30, 2010 is as follows (amounts in thousands):

	Balance Sheet Location	Fair Value – Asset (Liability) Derivatives
Derivatives designated as hedging instruments under Statement 133		
Interest rate contracts	Other non-current liabilities	\$(11,523)

A tabular presentation of the fair value of derivative instruments as of December 31, 2009 is as follows (amounts in thousands):

Balance Sheet Location

Fair Value – Asset (Liability)
DerivativesDerivatives designated as
hedging instruments under
Statement 133

Interest rate contracts	Other non-current liabilities	\$(8,901)
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A tabular presentation of the effect of derivative instruments on our statement of operations is as follows (amounts in thousands):

For the Three Months Ended June 30, 2010					
Derivatives in Statement 133	Amount of -Gain (Loss) Recognized	Amount of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion)	Location of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion)	Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)
Ineffective Interest Rate Swap	in OCI on Derivative (Effective Portion)	Recognized in Income on Derivative (Ineffective Portion)	in Income on Derivative (Ineffective Portion)	OCI into Income (Effective Portion)	Reclassified from Accumulated OCI into Income (Effective Portion)
Interest rate contracts	---	(\$1,150)	Other income/(expense)	* (\$306)	Interest income/(expense)

* Amortization of OCI associated with the cash flow hedges through April 6, 2010 (see discussion above).

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For the Three Months Ended June 30, 2009

Derivatives in Statement 133 Ineffective Interest Rate Swap	Amount of -Gain (Loss) Recognized in OCI on Derivative (Effective Portion)	Amount of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion)	Location of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion)	Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)
Interest rate contracts	\$3,819	(\$252)	Other income/(expense)	* (\$1,836)	Interest income/(expense)

* Amortization of OCI associated with the original cash flow hedges prior to modification on January 28, 2009 (see discussion above).

For the Six Months Ended June 30, 2010

Derivatives in Statement 133 Ineffective Interest Rate Swap	Amount of -Gain (Loss) Recognized in OCI on Derivative (Effective Portion)	Amount of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion)	Location of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion)	Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)
Interest rate contracts	(\$1,472)	(\$1,150)	Other income/(expense)	* (\$306)	Interest income/(expense)

* Amortization of OCI associated with the cash flow hedges through April 6, 2010 (see discussion above).

For the Six Months Ended June 30, 2009

Derivatives in Statement 133 Ineffective Interest Rate Swap	Amount of -Gain (Loss) Recognized in OCI on Derivative (Effective Portion)	Amount of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion)	Location of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion)	Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)
Interest rate contracts	(\$485)	(\$823)	Other income/(expense)	* (\$3,059)	Interest income/(expense)

* Amortization of OCI associated with the original cash flow hedges prior to modification on January 28, 2009 (see discussion above).

NOTE 3 – RECENT ACCOUNTING STANDARDS

In December 2009, the FASB issued ASU 2009-17, Consolidations (Topic 810) – Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities. ASU 2009-17 changes how a reporting entity determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. ASU 2009-17 also requires a reporting entity to provide additional disclosures about its involvement with variable interest entities and any significant changes in risk exposure due to that involvement. ASU 2009-17 is effective at the start of a reporting entity's first fiscal year beginning after November 15, 2009, or January 1, 2010, for a calendar year entity. Early adoption is not permitted. Our adoption of ASU 2009-17 did not have a material impact on our consolidated financial position, results of operations or cash flows.

In January 2010, the FASB issued authoritative guidance intended to improve disclosures about fair value measurements. The guidance requires entities to disclose significant transfers in and out of fair value hierarchy levels and the reasons for the transfers. Additionally, the guidance clarifies that a reporting entity should provide fair value measurements for each class of assets and liabilities and disclose the inputs and valuation techniques used for fair value measurements using significant other observable inputs (Level 2) and significant unobservable inputs (Level 3). The Company maintains interest rate swaps which are required to be recorded at fair value on a recurring basis. See Note 8 below for required disclosures under this guidance.

In February 2010, the FASB issued authoritative guidance on subsequent events. The guidance requires an SEC filer to evaluate subsequent events through the date the financial statements are issued but no longer requires an SEC filer to disclose the date through which the subsequent event evaluation occurred. The guidance became effective for the Company upon issuance and had no impact on the Company's results of operations or financial position.

NOTE 4 – FACILITY ACQUISITIONS

In December 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141(R), Business Combinations, codified in FASB Accounting Standards Codification (ASC) Topic 805, Business Combinations, which replaces SFAS No. 141. ASC Topic 805 introduced significant changes in the accounting for and reporting of business acquisitions. Pursuant to ASC Topic 805, 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.

On May 1, 2010, we completed the acquisition of Touchstone Imaging of Bowie, LLC in Bowie, Maryland for approximately \$595,000. We have made a preliminary purchase price allocation of the acquired assets and assumed liabilities and \$595,000 of fixed assets and no goodwill was recorded with respect to this transaction.

On April 30, 2010, we completed the acquisition of Delaware Diagnostic Services, Inc. (Limestone) in Wilmington, Delaware for approximately \$87,000. We have made a preliminary purchase price allocation of the acquired assets and assumed liabilities and \$87,000 of fixed assets and no goodwill was recorded with respect to this transaction.

On April 30, 2010, we acquired three multi-modality facilities from Sonix Medical Resources, Inc. through a bankruptcy proceeding in New York for approximately \$2.3 million in cash. The facilities located in Brooklyn, New York, Chatham, New Jersey and Haddon Heights, New Jersey operate a combination of MRI, CT, mammography, ultrasound, fluoroscopy, x-ray and related modalities. We have made a preliminary purchase price allocation of the acquired assets and assumed liabilities and approximately \$1.4 million of fixed assets and \$900,000 of goodwill was recorded with respect to this transaction.

On April 1, 2010, we completed the acquisition of Truxtun Medical Group in Bakersfield, California for approximately \$20.3 million in cash and the issuance of 375,000 shares of RadNet, Inc. common stock valued at approximately \$1.2 million on the date of acquisition. Truxtun operates four multi-modality facilities in Bakersfield, a Metropolitan Statistical Area with a population exceeding 800,000 residents in Kern County, California. Truxtun provides a broad range of services including MRI, CT, PET/CT, mammography, nuclear medicine, fluoroscopy, ultrasound, x-ray and related procedures. We have made a preliminary purchase price allocation of the acquired assets and assumed liabilities and approximately \$2.4 million of working capital, \$6.3 million of fixed assets, \$150,000 of other intangible assets related to covenant not to compete contracts, and \$12.7 million of goodwill was recorded with respect to this transaction.

On March 15, 2010, we acquired the imaging practice of Theodore Feit, M.D., Inc. in Burbank, CA for cash consideration of \$350,000. We have made a preliminary purchase price allocation of the acquired assets and assumed liabilities, and approximately \$350,000 of fixed assets and no goodwill was recorded with respect to this transaction.

On March 1, 2010, we completed the acquisition of Anaheim Open MRI in Anaheim, CA for cash consideration of \$910,000. The facility operates MRI, CT, ultrasound and X-ray, and has been rebranded as Anaheim Advanced Imaging. We have made a preliminary purchase price allocation of the acquired assets and assumed liabilities, and approximately \$605,000 of fixed assets and \$305,000 of goodwill was recorded with respect to this transaction.

On January 1, 2010, we completed the acquisition of Union Imaging Center in Union, New Jersey from Modern Medical Modalities Corporation for approximately \$5.4 million in cash and the issuance of 75,000 shares of RadNet, Inc. common stock valued at approximately \$153,000 on the date of acquisition. The center operates imaging modalities including MRI, CT, PET/CT, mammography, ultrasound, nuclear medicine and X-ray. We have made a preliminary purchase price allocation of the acquired assets and assumed liabilities, and approximately \$1.9 million of fixed assets and \$3.7 million of goodwill was recorded with respect to this transaction.

NOTE 5 – 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):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Net loss attributable to Radnet, Inc.'s common stockholders	\$(11,756) \$(336) \$(15,867) \$(1,178
Weighted average number of common shares outstanding during the year	36,916,905	35,924,279	36,641,953	35,920,246
Basic and diluted loss per share attributable to Radnet, Inc.'s common stockholders	\$(0.32) \$(0.01) \$(0.43) \$(0.03

For the three and six months ended June 30, 2010 and 2009, we excluded all options and warrants (see Note 7) in the calculation of diluted loss per share because their effect is antidilutive.

NOTE 6 – INVESTMENT IN JOINT VENTURES

We have eight unconsolidated joint ventures with ownership interests ranging from 22% to 50%. These joint ventures represent partnerships with hospitals, health systems or radiology practices and were formed for the purpose of owning and operating diagnostic imaging centers. Professional services at the joint venture diagnostic imaging centers are performed by contracted radiology practices or a radiology practice that participates in the joint venture. Our investment in these joint ventures is accounted for under the equity method. Investment in joint ventures decreased \$1.9 million to \$16.8 million at June 30, 2010 compared to \$18.7 million at December 31, 2009. This decrease is primarily related to our receipt of distributions of \$5.7 million offset by our recording of equity earnings of \$3.8 million.

We received management service fees from the centers underlying these joint ventures of approximately \$1.8 million and \$1.8 million for the three months ended June 30, 2010 and 2009, respectively, and approximately \$3.4 million and \$3.7 million for the six months ended June 30, 2010 and 2009, respectively.

The following table is a summary of key financial data for these joint ventures as of June 30, 2010 and December 31, 2009, and for the six months ended June 30, 2010 and 2009 (in thousands):

Balance Sheet Data:	June 30, 2010	December 31, 2009
Current assets	\$16,488	\$20,920
Noncurrent assets	27,115	27,243
Current liabilities	(5,842)	(5,929)
Noncurrent liabilities	(7,608)	(7,692)
Total net assets	\$30,153	\$34,542
Book value of Radnet joint venture interests	\$13,176	\$14,934
Cost in excess of book value of acquired joint venture interests	3,383	3,383
Elimination of intercompany profit remaining on Radnet's consolidated balance sheet	256	424
Total value of Radnet joint venture interests	\$16,815	\$18,741
Total book value of other joint venture partner interests	\$16,977	\$19,608
Income Statement Data for the six months ended June 30,	2010	2009
Net revenue	\$36,640	\$39,471
Net income	\$5,815	\$7,713

NOTE 7 – STOCK BASED COMPENSATION

We have two long-term incentive plans that currently have outstanding stock options which we refer to as the 2000 Plan and the 2006 Plan. The 2000 Plan was terminated as to future grants when the 2006 Plan was approved by the stockholders in 2006. We have reserved for issuance under the 2006 Plan 6,500,000 shares of common stock. Certain of the options granted under the 2006 Plan to employees are intended to qualify as incentive stock options under existing tax regulations. In addition, we issue non-qualified stock options and warrants under the 2006 Plan from time to time to non-employees, in connection with acquisitions and for other purposes and we may also issue stock under the Plan. Stock options and warrants generally vest over two to five years and expire five to ten years from date of grant.

As of June 30, 2010, 3,107,334, or approximately 62.5%, of all the outstanding stock options and warrants under our option plans are fully vested. During the six months ended June 30, 2010, we granted options and warrants to acquire 1,075,000 shares of common stock.

We have issued warrants outside the Plan under various types of arrangements to employees, in conjunction with debt financing and in exchange for outside services. All warrants issued after our February 2007 listing on the NASDAQ Global Market have been characterized as awards under the 2006 Plan. All warrants outside the Plan have been issued with an exercise price equal to the fair market value of the underlying common stock on the date of grant. The warrants expire from five to seven years from the date of grant. Vesting terms are determined by the board of directors or the compensation committee of the board of directors at the date of grant.

As of June 30, 2010, 2,469,566, or approximately 82.8%, of all the outstanding warrants outside the 2006 Plan are fully vested. During the six months ended June 30, 2010, we did not grant any warrants outside the 2006 Plan.

The following summarizes all of our option and warrant activity for the six months ended June 30, 2010:

Outstanding Options and Warrants Under the 2006 Plan and 2000 Plan	Shares	Weighted Average Exercise price Per Common Share	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value
Balance, December 31, 2009	3,959,750	\$ 4.15		
Granted	1,075,000	2.56		
Exercised	-	-		
Canceled or expired	(60,000)	2.40		
Balance, June 30, 2010	4,974,750	3.83	3.88	\$ 420,850
Exercisable at June 30, 2010	3,107,334	3.76	3.71	356,475

Non-Plan Outstanding Warrants	Shares	Weighted Average Exercise price Per Common Share	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value
Balance, December 31, 2009	3,057,898	\$ 2.24		
Granted	-	-		
Exercised	(315,000)	0.73		
Canceled or expired	-	-		
Balance, June 30, 2010	2,742,898	2.42	2.04	\$ 1,922,823
Exercisable at June 30, 2010	2,469,566	2.22	2.07	1,891,423

The aggregate intrinsic value in the table above represents the difference between our closing stock price on June 30, 2010 and the exercise price, multiplied by the number of in-the-money options and warrants on June 30, 2010. Total intrinsic value of options and warrants exercised during the six months ended June 30, 2010 was approximately \$923,900. As of June 30, 2010, total unrecognized stock-based compensation expense related to non-vested employee awards was approximately \$4.3 million, which is expected to be recognized over a weighted-average period of approximately 1.7 years.

The fair value of each option/warrant 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/warrant, 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/warrant.

The following is the weighted average data used to calculate the fair value:

	Risk-free Interest Rate	Expected Life	Expected Volatility	Expected Dividends
June 30, 2010	2.26	% 3.2 years	89.92	% -
June 30, 2009	2.63	% 3.0 years	91.35	% -

We have determined the expected term assumption under the "Simplified Method" as defined in ASC Topic 718. 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 grant date fair value of stock options and warrants granted during the six months ended June 30, 2010 and 2009 was \$1.51 and \$1.43, respectively.

NOTE 8 – FAIR VALUE MEASUREMENTS

We utilize a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers are: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

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

At June 30, 2010, based on Level 2 inputs primarily related to comparable market prices, we determined the fair values of our senior secured term loan and our senior unsecured notes, both issued on April 6, 2010, to be \$279.3 million and \$178.0 million, respectively. The carrying amount of the senior secured term loan and the senior unsecured notes at June 30, 2010 was \$284.3 million and \$200.0 million, respectively.

The Company maintains interest rate swaps which are required to be recorded at fair value on a recurring basis. At June 30, 2010 the fair value of these swaps of a liability of \$11.5 million was determined using Level 2 inputs. More specifically, the fair value was determined by calculating the value of the difference between the fixed interest rate of the interest rate swaps and the counterparty's forward LIBOR curve, which would be the input used in the valuations. The forward LIBOR curve is readily available in the public markets or can be derived from information available in the public markets.

On January 1, 2009, the Company adopted, without material impact on its consolidated financial statements, the provisions of FASB ASC Topic 820 related to nonfinancial assets and nonfinancial liabilities that are not required or permitted to be measured at fair value on a recurring basis, which include those measured at fair value including goodwill impairment testing, indefinite-lived intangible assets measured at fair value for impairment assessment, nonfinancial long-lived assets measured at fair value for impairment assessment, asset retirement obligations initially measured at fair value, and those initially measured at fair value in a business combination.

NOTE 9 – RELATED PARTY TRANSACTIONS

On June 1, 2009 we entered into a 10 year operating lease for a building at one of our imaging centers located in Wilmington, Delaware in which our Senior Vice President of Materials Management is a 50% owner. The monthly rent under this operating lease is approximately \$25,000. We believe that the monthly lease amount is in line with similar 10 year lease contracts available for comparable buildings in the area.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements reflect, among other things, management's current expectations and anticipated results of operations, all of which are subject to known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements, or industry results, to differ materially from those expressed or implied by such forward-looking statements. Therefore, any statements contained herein that are not statements of historical fact may be forward-looking statements and should be evaluated as such. Without limiting the foregoing, the words "believes," "anticipates," "plans," "intends," "will," "expects," "should" and similar words and expressions are intended to identify forward-looking statements. Except as required under the federal securities laws or by the rules and regulations of the SEC, we assume no obligation to update any such forward-looking information to reflect actual results or changes in the factors affecting such forward-looking information. The factors included in "Risks Relating to Our Business," in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009, as amended or supplemented by the information if any, in Part II – Item 1A below, among others, could cause our actual results to differ materially from those expressed in, or implied by, the forward-looking statements.

The Company intends that all forward-looking statements made will be subject to the safe harbor protection of the federal securities laws pursuant to Section 27A of the Securities Act and Section 21E of the Exchange Act. Forward-looking statements are based upon, among other things, the Company's assumptions with respect to:

- future revenues;
- expected performance and cash flows;
- changes in regulations affecting the Company;
- changes in third-party reimbursement rates;
- the outcome of litigation;
- the availability of radiologists at BRMG and our other contracted radiology practices;
- competition;
- acquisitions and divestitures of businesses;
- joint ventures and other business arrangements;
- access to capital and the terms relating thereto;
- technological changes in our industry;
- successful execution of internal plans;
- compliance with our debt covenants; and
- anticipated costs of capital investments.

You should consider the limitations on, and risks associated with, forward-looking statements and not unduly rely on the accuracy of predictions contained in such forward-looking statements. As noted above, these forward-looking statements speak only as of the date when they are made. The Company does not undertake any obligation to update forward-looking statements to reflect events, circumstances, changes in expectations, or the occurrence of unanticipated events after the date of those statements. Moreover, in the future, the Company, through senior management, may make forward-looking statements that involve the risk factors and other matters described in this Form 10-Q as well as other risk factors subsequently identified, including, among others, those identified in the Company's filings with the SEC on Form 10-K, Form 10-Q and Form 8-K.

Overview

The following discussion should be read along with the unaudited condensed consolidated financial statements included in this Form 10-Q, as well as the Company's 2009 Annual Report on Form 10-K filed with the Securities and Exchange Commission, which provides a more thorough discussion of the Company's services, industry outlook, and business trends.

With 191 centers, as of June 30, 2010, located in California, Delaware, Maryland, New Jersey, Florida, Kansas and New York, we are the leading national provider of freestanding, fixed-site outpatient diagnostic imaging services in the United States based on number of locations. Our centers provide physicians with imaging capabilities to facilitate the diagnosis and treatment of diseases and disorders and may reduce unnecessary invasive procedures, often minimizing the cost and amount of care for patients. Our services include magnetic resonance imaging (MRI), computed tomography (CT), positron emission tomography (PET), nuclear medicine, mammography, ultrasound, diagnostic radiology (X-ray), fluoroscopy and other related procedures. The vast majority of our centers offer multi-modality imaging services, a key point of differentiation from our competitors. Our multi-modality strategy diversifies revenue streams, reduces exposure to reimbursement changes and provides patients and referring physicians one location to serve the needs of multiple procedures.

We seek to develop leading positions in regional markets in order to leverage operational efficiencies. Our scale and density within our selected geographies provides close, long-term relationships with key payors, radiology groups and referring physicians. 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 provide corporate training programs, standardized policies and procedures and sharing of best practices among the physicians in our regional networks.

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 revenue is derived from a diverse mix of payors, including private payors, managed care capitated payors and government payors. We believe our payor diversity mitigates our exposure to possible unfavorable reimbursement trends within any one-payor class. In addition, our experience with capitation arrangements over the last several years has provided us with the expertise to manage utilization and pricing effectively, resulting in a predictable stream of revenue.

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

Howard G. Berger, M.D. is our President and Chief Executive Officer, a member of our Board of Directors and owns approximately 15% 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 employs physicians or 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. Through our management agreement with BRMG we determine the annual budget of BRMG and make all physician employment decisions. BRMG has insignificant operating assets and liabilities, and de-minimus equity. Through the management agreement with us, all of BRMG's cash flows are transferred to us. We have determined that BRMG is a variable interest entity, and that we are the primary beneficiary, and consequently, we consolidate the revenue and expenses of BRMG. BRMG recognized \$25.7 million and \$23.5 million of net revenues for the six months ended June 30, 2010 and 2009, respectively, and \$24.5 million and \$22.4 million of operating expenses for the six months ended June 30, 2010 and 2009, respectively. RadNet recognized \$89.5 million and \$86.9 million of net revenues for management services provided to BRMG. The cash flows of the BRMG are included in the accompanying consolidated statements of cash flows. All intercompany balances and transactions have been eliminated in consolidation.

Recent Developments

On April 1, 2010, we completed the acquisition of Truxtun Medical Group in Bakersfield, California for approximately \$20.3 million in cash and the issuance of 375,000 shares of RadNet, Inc. common stock valued at approximately \$1.2 million on the date of acquisition. Truxtun operates four multi-modality facilities in Bakersfield, a Metropolitan Statistical Area with a population exceeding 800,000 residents in Kern County, California. Truxtun provides a broad range of services including MRI, CT, PET/CT, mammography, nuclear medicine, fluoroscopy, ultrasound, x-ray and related procedures. We have made a preliminary purchase price allocation of the acquired assets and assumed liabilities and approximately \$2.4 million of working capital, \$6.3 million of fixed assets, \$150,000 of other intangible assets related to covenant not to compete contracts, and \$12.7 million of goodwill was recorded with respect to this transaction.

On April 6, 2010, we completed a debt refinancing plan for an aggregate of \$585 million. The debt refinancing plan included the issuance of a \$285 million senior secured term loan due April 6, 2016, a \$100 million senior secured revolving credit facility due April 6, 2015 and \$200 million in aggregate principal amount of senior unsecured notes due April 1, 2018. See "Liquidity and Capital Resources" below. We used \$412.0 million of the proceeds from the debt restructuring to pay off our prior credit facility and an additional \$1.7 million to settle a pre-payment penalty with GE Commercial Finance.

On April 30, 2010, we acquired three multi-modality facilities from Sonix Medical Resources, Inc. through a bankruptcy proceeding in New York for approximately \$2.3 million in cash. The facilities located in Brooklyn, New York, Chatham, New Jersey and Haddon Heights, New Jersey operate a combination of MRI, CT, mammography, ultrasound, fluoroscopy, x-ray and related modalities. We have made a preliminary purchase price allocation of the

acquired assets and assumed liabilities and approximately \$1.4 million of fixed assets and \$900,000 of goodwill was recorded with respect to this transaction.

On April 30, 2010, we also completed the acquisition of Delaware Diagnostic Services, Inc. (Limestone) in Wilmington, Delaware for approximately \$87,000. We have made a preliminary purchase price allocation of the acquired assets and liabilities and \$87,000 of fixed assets and no goodwill was recorded with respect to this transaction.

On May 1, 2010, we completed the acquisition of Touchstone Imaging of Bowie, LLC in Bowie, Maryland for approximately \$595,000. We have made a preliminary purchase price allocation of the acquired assets and assumed liabilities and \$595,000 of fixed assets and no goodwill was recorded with respect to this transaction.

Healthcare Reform Legislation

Healthcare reform legislation enacted in the first quarter of 2010 by the Patient Protection and Affordable Care Act or PPACA, specifically requires the U.S. Department of Health and Human Services, in computing physician practice expense relative value units, to increase the equipment utilization factor for advanced diagnostic imaging services (such as MRI, CT and PET) from a presumed utilization rate of 50% to 65% for 2010 through 2012, 70% in 2013, and 75% thereafter. Excluded from the adjustment are low-technology imaging modalities such as ultrasound, X-ray and fluoroscopy. The Health Care and Education Reconciliation Act of 2010 (H.R. 4872), which was passed by the Senate and approved by the President on March 30, 2010, amends the provision for higher presumed utilization of advanced diagnostic imaging services to a presumed rate of 75%. The higher utilization rate should be fully implemented beginning in 2011, in place of the phase-in approach provided in the PPACA. These changes may result in decreased revenue for the scans we perform for Medicare beneficiaries. Other changes in reimbursement for services rendered by Medicare Advantage plans may also reduce the revenues we receive for services rendered to Medicare Advantage enrollees.

Critical Accounting Policies

Use of Estimates

Our discussion and analysis of financial condition and results of operations are based on our consolidated financial statements that were prepared in accordance with U.S. generally accepted accounting principles, or GAAP. Management makes estimates and assumptions when preparing financial statements. These estimates and assumptions affect various matters, including:

• Our reported amounts of assets and liabilities in our consolidated balance sheets at the dates of the financial statements;

- Our disclosure of contingent assets and liabilities at the dates of the financial statements; and

• 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 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 2 to our consolidated financial statements in our annual report on Form 10-K for fiscal year ended December 31, 2009, as amended, 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.

During the period covered in this report, there were no material changes to the critical accounting estimates we use, and have described, in our annual report on Form 10-K for the fiscal year ended December 31, 2009, as amended.

Revenue Recognition

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

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

Depreciation and Amortization of Long-Lived Assets

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

Deferred Tax Assets

We evaluate the realizability of the net deferred tax assets and assess the valuation allowance periodically. If future taxable income or other factors are not consistent with our expectations, an adjustment to our allowance for net deferred tax assets may be required. For net deferred tax assets we consider estimates of future taxable income, including tax planning strategies in determining whether our net deferred tax assets are more likely than not to be realized.

Valuation of Goodwill and Long-Lived Assets

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," codified in FASB ASC Topic 350. 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 for impairment on October 1, 2009. Based on our review, we noted no impairment related to goodwill as of October 1, 2009. 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.

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.

Derivative Financial Instruments

The Company holds derivative financial instruments for the purpose of hedging the risks of certain identifiable and anticipated transactions. In general, the types of risks hedged are those relating to the variability of cash flows caused by movements in interest rates. The Company documents its risk management strategy and hedge effectiveness at the inception of the hedge, and, unless the instrument qualifies for the short-cut method of hedge accounting, over the term of each hedging relationship. The Company's use of derivative financial instruments is limited to interest rate swaps, the purpose of which is to hedge the cash flows of variable-rate indebtedness. The Company does not hold or issue derivative financial instruments for speculative purposes.

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
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended June 30,				Six Months Ended June 30,			
	2010		2009		2010		2009	
NET REVENUE	100.0	%	100.0	%	100.0	%	100.0	%
OPERATING EXPENSES								
Operating expenses	76.4	%	76.0	%	77.8	%	75.9	%
Depreciation and amortization	10.0	%	10.1	%	10.3	%	10.2	%
Provision for bad debts	6.1	%	6.4	%	6.1	%	6.3	%
Loss on sale of equipment	0.0	%	0.2	%	0.1	%	0.1	%
Severance costs	0.3	%	0.3	%	0.2	%	0.1	%
Total operating expenses	92.9	%	93.0	%	94.6	%	92.7	%
INCOME FROM OPERATIONS	7.1	%	7.0	%	5.4	%	7.3	%
OTHER EXPENSES								
Interest expense	9.2	%	9.6	%	8.6	%	10.1	%
Loss on extinguishment of debt	7.1	%	0.0	%	3.8	%	0.0	%
Gain on bargain purchase	0.0	%	-1.1	%	0.0	%	-0.5	%
Other expenses	0.8	%	0.6	%	0.4	%	0.2	%
Total other expenses	17.1	%	9.1	%	12.8	%	9.7	%
LOSS BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF JOINT VENTURES								
	-10.0	%	-2.1	%	-7.4	%	-2.4	%
Benefit from (provision for) income taxes	0.1	%	0.0	%	-0.1	%	0.0	%
Equity in earnings of joint ventures	1.4	%	1.9	%	1.5	%	2.0	%
NET LOSS	-8.4	%	-0.2	%	-6.0	%	-0.4	%
Net income attributable to noncontrolling interests	0.0	%	0.0	%	0.0	%	0.0	%
NET LOSS ATTRIBUTABLE TO RADNET, INC. COMMON STOCKHOLDERS	-8.5	%	-0.3	%	-6.0	%	-0.5	%

Three Months Ended June 30, 2010 Compared to the Three Months Ended June 30, 2009

Net Revenue

Net revenue for the three months ended June 30, 2010 was \$139.0 million compared to \$131.2 million for the three months ended June 30, 2009, an increase of \$7.8 million, or 6.0%.

Net revenue, including only those centers which were in operation throughout the second quarters of both 2010 and 2009, decreased \$4.0 million, or 3.1%. This 3.1% decrease is primarily the result of a decline in patient scheduling during the first half of 2010. This comparison excludes revenue contributions from centers that were acquired or

divested subsequent to April 1, 2009. For the three months ended June 30, 2010, net revenue from centers that were acquired subsequent to April 1, 2009 and excluded from the above comparison was \$12.5 million. For the three months ended June 30, 2009, net revenue from centers that were acquired subsequent to April 1, 2009 and excluded from the above comparison was \$718,000.

Operating Expenses

Operating expenses for the three months ended June 30, 2010 increased approximately \$6.5 million, or 6.5%, from \$99.7 million for the three months ended June 30, 2009 to \$106.2 million for the three months ended June 30, 2010. The following table sets forth our operating expenses for the three months ended June 30, 2010 and 2009 (in thousands):

	Three Months Ended June 30,	
	2010	2009
Salaries and professional reading fees, excluding stock-based compensation	\$58,429	\$52,938
Stock-based compensation	1,208	1,515
Building and equipment rental	11,996	11,084
Medical supplies	8,107	8,562
Other operating expenses *	26,465	25,617
Operating expenses	106,205	99,716
Depreciation and amortization	13,876	13,212
Provision for bad debts	8,468	8,369
Loss on sale of equipment, net	51	277
Severance costs	435	340
Total operating expenses	\$129,035	\$121,914

* Includes billing fees, office supplies, repairs and maintenance, insurance, business tax and license, outside services, utilities, marketing, travel and other expenses.

Salaries and professional reading fees, excluding stock-based compensation and severance

Salaries and professional reading fees, excluding stock-based compensation and severance, increased \$5.5 million, or 10.3%, to \$58.4 million for the three months ended June 30, 2010 compared to \$52.9 million for the three months ended June 30, 2009.

Salaries and professional reading fees, including only those centers which were in operation throughout the second quarters of both 2010 and 2009, increased \$338,000, or 0.6%. This comparison excludes contributions from centers that were acquired or divested subsequent to April 1, 2009. For the three months ended June 30, 2010, salaries and professional reading fees from centers that were acquired subsequent to April 1, 2009 and excluded from the above comparison was \$5.4 million. For the three months ended June 30, 2009, salaries and professional reading fees from centers that were acquired subsequent to April 1, 2009 and excluded from the above comparison was \$235,000.

Stock-based compensation

Stock-based compensation decreased \$307,000, or 20.2%, to \$1.2 million for the three months ended June 30, 2010 compared to \$1.5 million for the three months ended June 30, 2009. The decrease is primarily due to a larger number of options granted during the first half of 2009 that vested on the date of grant compared to the same period of 2010.

Building and equipment rental

Building and equipment rental expenses increased \$912,000, or 8.2%, to \$12.0 million for the three months ended June 30, 2010 compared to \$11.1 million for the three months ended June 30, 2009.

Building and equipment rental expenses, including only those centers which were in operation throughout the second quarters of both 2010 and 2009, decreased \$143,000, or 1.3%. This comparison excludes contributions from centers that were acquired or divested subsequent to April 1, 2009. For the three months ended June 30, 2010, building and equipment rental expenses from centers that were acquired subsequent to April 1, 2009 and excluded from the above comparison was \$1.2 million. For the three months ended June 30, 2009, building and equipment rental expenses from centers that were acquired subsequent to April 1, 2009 and excluded from the above comparison was \$115,000.

Medical supplies

Medical supplies expense decreased \$455,000, or 5.3%, to \$8.1 million for the three months ended June 30, 2010 compared to \$8.6 million for the three months ended June 30, 2009.

Medical supplies expense, including only those centers which were in operation throughout the second quarters of both 2010 and 2009, decreased \$931,000, or 10.9%. This 10.9% decrease is primarily due to a change in vendors supplying certain drugs used in operating our Breastlink centers as well as obtaining certain rebates during the second quarter of 2010. This comparison excludes contributions from centers that were acquired or divested subsequent to April 1, 2009. For the three months ended June 30, 2010, medical supplies expense from centers that were acquired subsequent to April 1, 2009 and excluded from the above comparison was \$507,000. For the three months ended June 30, 2009, medical supplies expense from centers that were acquired subsequent to April 1, 2009 and excluded from the above comparison was \$31,000.

Depreciation and amortization

Depreciation and amortization increased \$644,000, or 5.0%, to \$13.9 million for the three months ended June 30, 2010 compared to the same period last year. The increase is primarily due to property and equipment additions for existing centers as well as newly acquired centers.

Provision for bad debts

Provision for bad debts increased \$99,000, or 1.2%, to \$8.5 million, or 6.1% of net revenue, for the three months ended June 30, 2010 compared to \$8.4 million, or 6.4% of net revenue, for the three months ended June 30, 2009.

Interest expense

Interest expense for the three months ended June 30, 2010 increased approximately \$151,000, or 1.2%, to \$12.7 million for the three months ended June 30, 2010 compared to \$12.5 million for the three months ended June 30, 2009. Interest expense for the three months ended June 30, 2010 included \$306,000 of amortization of Accumulated Other Comprehensive Loss associated with fair value adjustments to our interest rate swaps accumulated prior to April 6, 2010, the date of our debt refinancing. See "Liquidity and Capital Resources" below for more details on our debt refinancing. Interest expense for the three months ended June 30, 2009 included \$1.8 million of amortization of Accumulated Other Comprehensive Loss associated with fair value adjustments accumulated prior to our January 28, 2009 modification of interest rate swaps. Excluding these adjustments to interest expense related to our interest rate swaps in both periods, interest expense increased \$1.7 million, which was primarily due to interest on our additional borrowings under the debt refinancing completed April 6, 2010.

Loss on extinguishment of debt

For the three months ended June 30, 2010, we recorded a \$9.9 million loss on extinguishment of debt related to our debt refinancing completed on April 6, 2010. This loss included \$7.6 million write-off of deferred loan costs associated with our GE debt settled on April 6, 2010 as well as approximately \$2.3 million to settle a call premium associated with our prior credit facilities and for interest rate swap related expenses.

Other expenses

For the three months ended June 30, 2010 we recorded \$1.2 million of other expenses related to fair value adjustments on our interest rate swaps. For the three months ended June 30, 2009 we recorded \$252,000 of other income related to

fair value adjustments on our interest rate swaps, offset by \$1.0 million of other expense primarily related to litigation.

Gain on bargain purchase

On June 12, 2009, we acquired the assets and business of nine imaging centers located in New Jersey from Medical Resources, Inc.

In accordance with SFAS No. 141(R), any excess of fair value of acquired net assets over the acquisition consideration results in a gain on bargain purchase. Prior to recording a gain, the acquiring entity must reassess whether all acquired assets and assumed liabilities have been identified and recognized and perform re-measurements to verify that the consideration paid, assets acquired, and liabilities assumed have been properly valued. The Company underwent such a reassessment, and as a result, has recorded a gain on bargain purchase of approximately \$1.4 million for the three months ended June 30, 2009.

We believe that the gain on bargain purchase resulted from various factors that impacted the sale of these New Jersey assets. The seller was performing a full liquidation of its assets for the benefit of its creditors. Upon liquidation of all of its assets, the seller intended to close its business. The New Jersey assets were the only remaining assets to be sold before a full wind-down of the seller's business could be completed. We believe that the seller was willing to accept a bargain purchase price from us in return for our ability to act more quickly and with greater certainty than any other prospective acquirer. The decline in the credit markets made it difficult for other acquirers who relied upon third party financing to complete the transaction. The relatively small size of the transaction for us, the lack of required third-party financing and our expertise in completing similar transactions in the past gave the seller confidence that we could complete the transaction expeditiously and without difficulty.

Equity in earnings from unconsolidated joint ventures

For the three months ended June 30, 2010, we recognized equity in earnings from unconsolidated joint ventures of \$2.0 million compared to \$2.5 million for the three months ended June 30, 2009.

Six Months Ended June 30, 2010 Compared to the Six Months Ended June 30, 2009

Net Revenue

Net revenue for the six months ended June 30, 2010 was \$263.1 million compared to \$259.1 million for the six months ended June 30, 2009, an increase of \$4.0 million, or 1.5%.

Net revenue, including only those centers which were in operation throughout the first half of both 2010 and 2009, decreased \$12.7 million, or 4.9%. This 4.9% decrease is primarily the result of a decline in patient scheduling during the first half of 2010, much of which was due to unusually severe weather conditions on the east coast during the first quarter. This comparison excludes revenue contributions from centers that were acquired or divested subsequent to January 1, 2009. For the six months ended June 30, 2010, net revenue from centers that were acquired subsequent to January 1, 2009 and excluded from the above comparison was \$17.9 million. For the six months ended June 30, 2009, net revenue from centers that were acquired subsequent to January 1, 2009 and excluded from the above comparison was \$1.2 million

Operating Expenses

Operating expenses for the six months ended June 30, 2010 increased approximately \$8.1 million, or 4.1%, from \$196.7 million for the six months ended June 30, 2009 to \$204.8 million for the six months ended June 30, 2010. The following table sets forth our operating expenses for the six months ended June 30, 2010 and 2009 (in thousands):

	Six Months Ended June 30,	
	2010	2009
Salaries and professional reading fees, excluding stock-based compensation	\$ 113,249	\$ 105,838
Stock-based compensation	2,027	2,224
Building and equipment rental	23,248	21,622
Medical supplies	14,870	16,459
Other operating expenses *	51,450	50,586
Operating expenses	204,844	196,729
Depreciation and amortization	27,151	26,386
Provision for bad debts	16,145	16,343
Loss on sale of equipment, net	155	303
Severance costs	567	357
Total operating expenses	\$248,862	\$240,118

* Includes billing fees, office supplies, repairs and maintenance, insurance, business tax and license, outside services, utilities, marketing, travel and other expenses.

Salaries and professional reading fees, excluding stock-based compensation and severance

Salaries and professional reading fees increased \$7.4 million, or 7.0%, to \$113.2 million for the six months ended June 30, 2010 compared to \$105.8 million for the six months ended June 30, 2009.

Salaries and professional reading fees, including only those centers which were in operation throughout the first half of both 2010 and 2009, increased \$2.2 million, or 2.1%. This 2.1% increase is due in part to an increase in the number of doctors employed by BRMG associated with the expansion of our breast care centers. This comparison excludes contributions from centers that were acquired or divested subsequent to January 1, 2009. For the six months ended June 30, 2010, salaries and professional reading fees from centers that were acquired subsequent to January 1, 2009 and excluded from the above comparison was \$5.6 million. For the six months ended June 30, 2009, salaries and professional reading fees from centers that were acquired subsequent to January 1, 2009 and excluded from the above comparison was \$417,000.

Stock-based compensation

Stock-based compensation decreased \$196,000, or 8.9%, to \$2.0 million for the six months ended June 30, 2010 compared to \$2.2 million for the six months ended June 30, 2009. The decrease is primarily due to a larger number of options granted during the first half of 2009 that vested on the date of grant compared to the same period of 2010.

Building and equipment rental

Building and equipment rental expenses increased \$1.6 million, or 7.5%, to \$23.2 million for the six months ended June 30, 2010 compared to \$21.6 million for the six months ended June 30, 2009.

Building and equipment rental expenses, including only those centers which were in operation throughout the first half of both 2010 and 2009, decreased \$169,000, or 0.8%. This comparison excludes contributions from centers that were acquired or divested subsequent to January 1, 2009. For the six months ended June 30, 2010, building and equipment rental expenses from centers that were acquired subsequent to January 1, 2009 and excluded from the above comparison was \$2.0 million. For the six months ended June 30, 2009, building and equipment rental expenses from

centers that were acquired subsequent to January 1, 2009 and excluded from the above comparison was \$233,000.

Medical supplies

Medical supplies expense decreased \$1.6 million, or 9.7%, to \$14.9 million for the six months ended June 30, 2010 compared to \$16.5 million for the six months ended June 30, 2009.

Medical supplies expenses, including only those centers which were in operation throughout the first half of both 2010 and 2009, decreased \$2.2 million, or 13.6%. This 13.6% decrease is primarily due to a change in vendors supplying certain drugs used in operating our Breastlink centers as well as obtaining certain rebates during the first quarter of 2010. This comparison excludes contributions from centers that were acquired or divested subsequent to January 1, 2009. For the six months ended June 30, 2010, medical supplies expense from centers that were acquired subsequent to January 1, 2009 and excluded from the above comparison was \$697,000. For the six months ended June 30, 2009, medical supplies expense from centers that were acquired subsequent to January 1, 2009 and excluded from the above comparison was \$52,000.

Depreciation and amortization

Depreciation and amortization increased \$765,000, or 2.9%, to \$27.2 million for the six months ended June 30, 2010 compared to the same period last year. The increase is primarily due to property and equipment additions for existing centers as well as newly acquired centers.

Provision for bad debts

Provision for bad debts decreased \$198,000, or 1.2%, to \$16.1 million, or 6.1% of net revenue, for the six months ended June 30, 2010 compared to \$16.3 million, or 6.3% of net revenue, for the six months ended June 30, 2009.

Interest expense

Interest expense for the six months ended June 30, 2010 decreased approximately \$3.5 million, or 13.3%, to \$22.7 million for the six months ended June 30, 2010 compared to \$26.2 million for the six months ended June 30, 2009. Interest expense for the six months ended June 30, 2010 included \$306,000 of amortization of Accumulated Other Comprehensive Loss associated with fair value adjustments to our interest rate swaps accumulated prior to April 6, 2010, the date of our debt refinancing. See "Liquidity and Capital Resources" below for more details on our debt refinancing. Interest expense for the six months ended June 30, 2009 included \$3.1 million of amortization of Accumulated Other Comprehensive Loss associated with fair value adjustments accumulated prior to our January 28, 2009 modification of interest rate swaps. Excluding these adjustments to interest expense related to our interest rate swaps in both periods, interest expense decreased \$681,000. This decrease was due in part to a decrease in interest rates in the first quarter of 2010 which is largely offset by interest expense on the additional borrowings under the debt refinancing completed April 6, 2010.

Loss on extinguishment of debt

For the six months ended June 30, 2010, we recorded a \$9.9 million loss on extinguishment of debt related to our debt refinancing completed on April 6, 2010. This loss included \$7.6 million write-off of deferred loan costs associated with our GE debt settled on April 6, 2010 as well as approximately \$2.3 million to settle a call premium associated with our prior credit facilities and for interest rate swap related expenses.

Other expenses

For the six months ended June 30, 2010 we recorded \$1.2 million of other expenses related to fair value adjustments on our interest rate swaps. For the six months ended June 30, 2009 we recorded \$823,000 of other income related to fair value adjustments on our interest rate swaps, offset by \$1.2 million of other expense primarily related to litigation.

Gain on bargain purchase

On June 12, 2009, we acquired the assets and business of nine imaging centers located in New Jersey from Medical Resources, Inc.

In accordance with SFAS No. 141(R), any excess of fair value of acquired net assets over the acquisition consideration results in a gain on bargain purchase. Prior to recording a gain, the acquiring entity must reassess whether all acquired assets and assumed liabilities have been identified and recognized and perform re-measurements to verify that the consideration paid, assets acquired, and liabilities assumed have been properly valued. The Company underwent such a reassessment, and as a result, has recorded a gain on bargain purchase of approximately \$1.4 million for the six months ended June 30, 2009.

We believe that the gain on bargain purchase resulted from various factors that impacted the sale of these New Jersey assets. The seller was performing a full liquidation of its assets for the benefit of its creditors. Upon liquidation of all of its assets, the seller intended to close its business. The New Jersey assets were the only remaining assets to be sold before a full wind-down of the seller's business could be completed. We believe that the seller was willing to accept a bargain purchase price from us in return for our ability to act more quickly and with greater certainty than any other prospective acquirer. The decline in the credit markets made it difficult for other acquirers who relied upon third party financing to complete the transaction. The relatively small size of the transaction for us, the lack of required third-party financing and our expertise in completing similar transactions in the past gave the seller confidence that we could complete the transaction expeditiously and without difficulty.

Income tax expense

For the six months ended June 30, 2010 and 2009, we recorded \$206,000 and \$50,000, respectively, for income tax expense primarily related to taxable income generated in the states of Maryland and Delaware.

Equity in earnings from unconsolidated joint ventures

For the six months ended June 30, 2010, we recognized equity in earnings from unconsolidated joint ventures of \$3.8 million compared to \$5.1 million for the six months ended June 30, 2009.

Liquidity and Capital Resources

We had a working capital balance of \$31.4 million and \$9.2 million at June 30, 2010 and December 31, 2009, respectively. We had a net loss attributable to RadNet, Inc.'s common stockholders of \$11.8 million and \$336,000 for the three months ended June 30, 2010 and 2009, respectively, and \$15.9 million and \$1.2 million for the six months ended June 30, 2010 and 2009, respectively. \$9.9 million of the loss in 2010 relates to extinguishment of debt incurred on April 6, 2010. We also had an equity deficit of \$88.3 million and \$74.8 million at June 30, 2010 and December 31, 2009, 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.

On April 6, 2010 we completed our debt refinancing plan for an aggregate of \$585 million. The debt refinancing plan included the issuance of a \$285 million senior secured term loan due April 6, 2016, a \$100 million senior secured revolving credit facility due April 6, 2015 and \$200 million in aggregate principal amount of senior unsecured notes due April 1, 2018 (the "Notes"). We used \$412.0 million of the proceeds from the debt restructuring to pay off our prior credit facility and an additional \$1.7 million to settle a call premium associated with our prior credit facilities. As a result of this refinancing, we recorded during the three months ended June 30, 2010 a loss on extinguishment of debt of approximately \$9.9 million which is made up of the \$1.7 million call premium, \$7.6 million write-off of deferred loan costs associated with the prior credit facility, as well as \$600,000 of additional debt settlement costs.

At June 30, 2010, the balance of the senior secured term loan was approximately \$284.3 million and the par value of our senior unsecured notes was \$200.0 million.

Just prior to our refinancing discussed above, our outstanding indebtedness included a \$242.0 million senior secured term loan B and a \$170.0 million second lien term loan both with GE Commercial Finance Healthcare Financial Services originally entered into on November 15, 2006 (the "GE Credit Facility").

New Credit Agreement

Radnet Management, Inc., a wholly-owned subsidiary of RadNet, Inc., entered into a new Credit and Guaranty Agreement (the "New Credit Agreement") pursuant to which we obtained \$385 million in senior secured bank financing, consisting of a \$285 million, six-year term loan facility and a \$100 million, five-year revolving credit facility (the New Credit Facilities). In connection with the New Credit Facilities, Radnet Management, Inc., terminated the GE Credit Facility.

Interest. The New Credit Facilities bear interest through maturity at a rate determined by adding the applicable margin to either (a) the Base Rate, which is the highest of the (i) Prime Rate, (ii) the rate which is 0.5% in excess of the Federal Funds Effective Rate, (iii) 3.00% and (iv) 1.00% in excess of the one-month Adjusted Eurodollar Rate at such time, or (b) the Adjusted Eurodollar Rate, which is the higher of (i) the London interbank offered rate, adjusted for statutory reserve requirements, for the respective interest period, as determined by the administrative agent and (ii) 2.00%. Applicable margin means (i) (a) with respect to Tranche B Term Loans that are Eurodollar Rate Loans, 3.75% per annum and (b) with respect to Tranche B Term Loans that are Base Rate Loans, 2.75% per annum; and (ii) (a) with respect to Revolving Loans that are Eurodollar Rate Loans, 3.75% per annum and (b) with respect to Revolving Loans and Swing Line Loans that are Base Rate Loans, 2.75% per annum.

Payments. Commencing on June 30, 2010, we are required to make quarterly amortization payments on the term loan facility, each in the amount of \$712,500, with the remaining principal balance paid off at maturity. Under the New Credit Agreement, we are also required to make mandatory prepayments, subject to specified exceptions, from Consolidated Excess Cash Flow, and upon certain events, including, but not limited to, (i) the receipt of net cash proceeds from the sale or other disposition of any property or assets by us or any of our subsidiaries, (ii) the receipt of net cash proceeds from insurance or condemnation proceeds paid on account of any loss of any property or assets of us or any of our subsidiaries, (iii) the receipt of net cash proceeds from the incurrence of indebtedness by us or any of our subsidiaries (other than certain indebtedness otherwise permitted under the loan documents relating to the New Credit Facilities) and (iv) the receipt of net cash proceeds by us or any of our subsidiaries from Extraordinary Receipts, as defined in the New Credit Agreement.

Guarantees and Collateral. The obligations under the New Credit Facilities are guaranteed by us, all of our current and future wholly-owned domestic restricted subsidiaries and certain of our affiliates. The obligations under the New Credit Facilities and the guarantees are secured by a perfected first priority security interest in all of Radnet Management's and the guarantors' tangible and intangible assets, including, but not limited to, pledges of equity interests of Radnet Management and all of our current and future domestic subsidiaries.

Restrictive Covenants. In addition to certain customary covenants, the New Credit Agreement places limits on our ability to declare dividends or redeem or repurchase capital stock, prepay, redeem or purchase debt, incur liens and engage in sale-leaseback transactions, make loans and investments, incur additional indebtedness, amend or otherwise alter debt and other material agreements, engage in mergers, acquisitions and asset sales, enter into transactions with affiliates and alter the business we and our subsidiaries currently conduct.

Financial Covenants. The New Credit Agreement contains financial covenants including a minimum interest coverage ratio, a maximum total leverage ratio and a limit on annual capital expenditures. Failure to comply with these covenants could permit the lenders under the New Credit Facilities to declare all amounts borrowed, together with accrued interest and fees, to be immediately due and payable.

Events of Default. In addition to certain customary events of default, events of default under the New Credit Facilities include failure to pay principal or interest when due, a material breach of any representation or warranty contained in the loan documents, covenant defaults, events of bankruptcy and a change of control.

The Notes

Also on April 6, 2010, we issued \$200 million in aggregate amount of senior unsecured Notes which have a coupon of 10.375% and were issued at a price of 98.680%. The Notes were issued by Radnet Management, Inc. and guaranteed jointly and severally on a senior unsecured basis by us and all of our current and future wholly-owned domestic restricted subsidiaries. The Notes were offered and sold in a private placement exempt from registration under the Securities Act to qualified institutional buyers pursuant to Rule 144A and Regulation S under the Securities Act. The Notes will mature on April 1, 2018, and bear interest at the rate of 10.375% per year. We will pay interest on the Notes on April 1 and October 1, commencing October 1, 2010. The Notes are governed under an indenture agreement with U.S. Bank National Association as trustee. We have agreed to file a registration statement with the Securities and Exchange Commission relating to an offer to exchange The Notes for registered publicly traded notes that have substantially identical terms as The Notes.

Ranking. The Notes and the guarantees:

- rank equally in right of payment with any existing and future unsecured senior indebtedness of the guarantors;
 - rank senior in right of payment to all existing and future subordinated indebtedness of the Guarantors;
- are effectively subordinated in right of payment to any secured indebtedness of the guarantors (including indebtedness under the New Credit Facilities) to the extent of the value of the assets securing such indebtedness; and
- are structurally subordinated in right of payment to all existing and future indebtedness and other liabilities of any of the Company's subsidiaries that is not a guarantor of the Notes.

Optional Redemption. Radnet Management may redeem the Notes, in whole or in part, at any time on or after April 1, 2014, at the redemption prices specified under the Indenture. Prior to April 1, 2013, we may redeem up to 35% of aggregate principal amount of the Notes issued under the Indenture from the net proceeds of one or more equity offerings at a redemption price equal to 110.375% of the Notes redeemed, plus accrued and unpaid interest, if any. Radnet Management is also permitted to redeem the Notes prior to April 1, 2014, in whole or in part, at a redemption price equal to 100% of the principal amount redeemed, plus a make-whole premium and accrued and unpaid interest, if any.

Change of Control and Asset Sales. If a change in control of Radnet Management occurs, Radnet Management must give holders of the Notes the opportunity to sell their Notes at 101% of their face amount, plus accrued interest. If we or one of our restricted subsidiaries sells assets under certain circumstances, Radnet Management will be required to make an offer to purchase the Notes at their face amount, plus accrued and unpaid interest to the purchase date.

Restrictive Covenants. The Indenture contains covenants that limit, among other things, the ability of us and our restricted subsidiaries, to:

- pay dividends or make certain other restricted payments or investments;
- incur additional indebtedness and issue preferred stock;
-

create liens (other than permitted liens) securing indebtedness or trade payables unless the notes are secured on an equal and ratable basis with the obligations so secured, and, if such liens secure subordinated indebtedness, the notes are secured by a lien senior to such liens;

- sell certain assets or merge with or into other companies or otherwise dispose of all or substantially all of our assets;
- enter into certain transactions with affiliates;
- create restrictions on dividends or other payments by our restricted subsidiaries; and
- create guarantees of indebtedness by restricted subsidiaries.

However, these limitations are subject to a number of important qualifications and exceptions, as described in the Indenture.

Sources and Uses of Cash

Cash provided by operating activities was \$22.5 million for the six months ended June 30, 2010 and \$32.9 million for the six months ended June 30, 2009.

Cash used in investing activities was \$50.6 million and \$19.2 million for the six months ended June 30, 2010 and 2009, respectively. For the six months ended June 30, 2010, we purchased property and equipment for approximately \$20.8 million and acquired the assets and businesses of additional imaging facilities for approximately \$29.8 million.

Cash provided by financing activities was \$38.5 million for the six months ended June 30, 2010 compared to cash used in financing activities of \$13.7 million for the six months ended June 30, 2009. The cash provided by financing activities for the six months ended June 30, 2010 was primarily related to our debt refinancing completed on April 6, 2010.

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

Foreign Currency Exchange 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.

Interest Rate Sensitivity. 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. Our credit facility however, which is classified as a long-term liability on our financial statements, is interest expense sensitive to changes in the general level of interest in the United States because it is based upon an index rate plus a factor.

ITEM 4. Controls and Procedures

Disclosure Controls and Procedures.

We maintain disclosure controls and procedures that are designed to provide reasonable assurance that material information is: (1) gathered and communicated to our management, including our principal executive and financial officers, on a timely basis; and (2) recorded, processed, summarized, reported and filed with the SEC as required under the Securities Exchange Act of 1934, as amended.

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2010. Based on such evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective for their intended purpose described above.

Changes in Internal Control over Financial Reporting

No changes were made in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during our most recent fiscal quarter that has materially affected, or is likely to materially affect, our internal control over financial reporting.

Limitations on Disclosure Controls and Procedures.

Our management, including our chief executive officer and chief financial officer, does not expect that our disclosure controls or internal controls over financial reporting will prevent all errors or all instances of fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and any design may not succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures. Because of the inherent limitation of a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

PART II – OTHER INFORMATION

ITEM 1

Legal Proceedings

We are engaged from time to time in the defense of lawsuits arising out of the ordinary course and conduct of our business. We believe that the outcome 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 1A

Risk Factors

In addition to the other information set forth in this report, we urge you to carefully consider the factors discussed in Part I, "Item 1A Risk Factors" in our Form 10-K for the year ended December 31, 2009, as amended, and the factors discussed in Part II, "Item 1A Risk Factors" in our Form 10-Q for the quarter ended March 31, 2010, which could materially affect our business, financial condition and results of operations. The risks described below and in our Form 10-K, as amended, are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

Changes in the method or rates of third-party reimbursement could have a negative impact on our results.

From time to time, changes designed to contain healthcare costs have been implemented, some of which have resulted in decreased reimbursement rates for diagnostic imaging services that impact our business. For services for which we bill Medicare directly, we are paid under the Medicare Physician Fee Schedule, which is updated on an annual basis. Under the Medicare statutory formula, payments under the Physician Fee Schedule would have decreased for the past several years if Congress failed to intervene. For example, for 2008, the fee schedule rates were to be reduced by approximately 10.1%. The Medicare, Medicaid and SCHIP Extension Act of 2007 eliminated the 10.1% reduction for 2008 and increased the annual payment rate update by 0.5%. This increase to the annual Medicare Physician Fee Schedule payment update was effective only for Medicare claims with dates of service between January 1, 2008 and June 30, 2008. Beginning July 1, 2008, under the Medicare Improvement for Patients and Providers Act of 2008 (MIPPA), the 0.5% increase was continued for the rest of 2008. In addition, MIPPA established a 1.1% increase to the Medicare Physician Fee Schedule payment update for 2009. For 2010, CMS projected a rate reduction of 21.2%. On December 19, 2009, President Obama signed into law the Department of Defense Appropriations Act, 2010 which includes a zero percent Medicare physician update through February 28, 2010. This was further extended through March 31, 2010 and later through May 31, 2010 by the Temporary Extension Act of 2010 and the Continuing Extension Act of 2010, signed into law by President Obama on March 2, 2010 and April 15, 2010, respectively. Further action was taken on June 25, 2010, when the Preservation of Access to Care for Medicare Beneficiaries and Pension Relief Act of 2010 was signed into law. Section 101 of Pub. L. 111-192 provides for a 2.2% update to the 2010 Physician Fee Schedule effective for dates of service June 1, 2010 through November 30, 2010. This incremental legislation is designed to delay the 21.2% payment reductions inherent in the statutory payment formula. On July 13, 2010, the proposed Calendar Year 2011 Medicare Physician Fee Schedule regulation was published in the Federal Register. Payments under the Physician Fee Schedule will be reduced in 2011 by 6.1%, in addition to the 21.2% rate reduction that will go into effect if Congress fails to intervene. The resulting decrease in payment will adversely impact our revenues and results of operation.

MIPPA also modified the methodology by which the budget neutrality formula was applied to the 2009 physician fee schedule payment rates, resulting in an overall reduction in payment rates for services performed by many specialties, including an estimated 3% reduction for radiation oncology and 1% reduction for nuclear medicine. The impact of these payment rate reductions could impact the Company's future revenue depending upon our service mix.

A number of other legislative changes impact our business. For example, DRA imposed caps on Medicare payment rates for certain imaging services furnished in physician's offices and other non-hospital based settings. The caps impact MRI and PET/CT. Under the cap, payments for specified imaging services cannot exceed the hospital outpatient payment rates for those services. This change applies to services furnished on or after January 1, 2007. The limitation is applicable to the technical components of the diagnostic imaging services only, which is the payment we receive for the services for which we bill directly under the Medicare Physician Fee Schedule.

The DRA also codified the reduction in reimbursement for multiple images on contiguous body parts, which was previously announced by CMS. The DRA mandated payment at 100% of the technical component of the higher priced imaging procedure and 50% for the technical component of each additional imaging procedure for multiple images of contiguous body parts within a family of codes performed in the same session. Beginning in 2006, CMS had only implemented a 25% reduction for each additional imaging procedure on contiguous body parts. However, for services furnished on or after July 1, 2010, PPACA requires the full 50% reduction to be implemented, as mandated by the DRA.

Regulatory updates to payment rates for which we bill the Medicare program directly are published annually by CMS in the Federal Register. For payments under the Physician Fee Schedule for calendar year 2010, CMS changed the way it calculates components of the Medicare Physician Fee Schedule. First, CMS reduced payment rates for certain diagnostic services using equipment costing more than \$1 million through revisions to usage assumptions from the current 50% usage rate to a 90% usage rate. This change applied to MRI and CT scans. The Health Care and Education Affordability Reconciliation Act (the "Reconciliation Act"), signed into law on March 30, 2010, resets the assumed usage rate for diagnostic imaging equipment costing more than \$1 million to a rate of 75%, effective for payments made under the 2011 Medicare Physician Fee Schedule and subsequent years. Further with respect to its 2010 changes, CMS also reduced payment for services primarily involving the technical component rather than the physician work component, including the services we provide, by adjusting downward malpractice payments for these services. The reductions primarily impacted radiology and other diagnostic tests. All these changes to the Medicare Physician Fee Schedule will be transitioned over a four year period such that beginning in 2013, CMS will fully implement the revised payment rates. For the 2010 transitioned payment, CMS estimates the impact of its changes will result in a 5% reduction in radiology, 18% reduction in nuclear medicine and 12% reduction for all suppliers providing the technical component of diagnostic tests generally.

ITEM 2 Unregistered Sales of Equity Securities and Use of Proceeds

On April 1, 2010, we completed the acquisition of Truxtun Medical Group in Bakersfield, California for approximately \$20.3 million in cash and the issuance of 375,000 shares of Radnet, Inc. common stock valued at approximately \$1.2 million on the date of acquisition. The shares of common stock were issued in reliance upon an exemption from the registration requirements of the Securities Act under Section 4(2) of the Act.

ITEM 3 Defaults Upon Senior Securities

None

ITEM 4 Removed and Reserved

ITEM 5

Other Information

None

ITEM 6

Exhibits

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

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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.

(Registrant)

Date: August 9, 2010

By /s/ Howard G. Berger, M.D.
Howard G. Berger, M.D.,
President and
Chief Executive Officer
(Principal Executive Officer)

Date: August 9, 2010

By /s/ Mark D. Stolper
Mark D. Stolper, Chief
Financial Officer
(Principal Financial and
Accounting Officer)

INDEX TO EXHIBITS

Exhibit Number	Description
4.1*	Pledge and Security Agreement, dated as of April 6, 2010, among each of the grantors party thereto and Barclays Bank PLC.
4.2*	Indenture, dated as of April 6, 2010, among Radnet Management, Inc., RadNet, Inc. and the other guarantors party thereto and U.S. Bank National Association, as trustee.
4.3*	Registration Rights Agreement, dated as of April 6, 2010, among RadNet, Inc., the other guarantors party thereto, and Deutsche Bank Securities Inc., as representative of the several initial purchasers of the Notes.
10.1*	Credit and Guaranty Agreement, dated as of April 6, 2010, among Radnet Management, Inc., as borrower, RadNet, Inc., certain subsidiaries and affiliates of Radnet Management, Inc., as guarantors, Barclays Capital, Deutsche Bank Securities Inc., GE Capital Markets, Inc. and Royal Bank of Canada, as joint bookrunners and joint lead arrangers, Deutsche Bank Securities Inc. and General Electric Capital Corporation, as co-syndication agents, RBC Capital Markets, as documentation agent, and Barclays Bank PLC, as administrative agent and collateral agent.
31.1	Certification of Howard G. Berger, M.D. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Mark D. Stolper pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002 of Howard G. Berger, M.D.
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002 of Mark D. Stolper

* Incorporated by reference to the Form 8-K filed on April 6, 2010.