RadNet, Inc.
Form 10-Q
November 09, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2009

OR

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

For the transition period from to

Commission File Number 0-19019

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ¨ No ¨

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

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

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

The number of shares of the registrant’s common stock outstanding on November 5, 2009, was 36,184,279 shares.

TABLE OF CONTENTS

RADNET, INC.

INDEX

	Page
PART I – FINANCIAL INFORMATION	
ITEM 1. Condensed Consolidated Financial Statements	
Consolidated Balance Sheets at September 30, 2009 and December 31, 2008	3
Consolidated Statements of Operations for the Three and Nine Months ended September 30, 2009 and 2008	4
Consolidated Statement of Stockholders' Deficit for the Nine Months ended September 30, 2009	5
Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2009 and 2008	6
Notes to Consolidated Financial Statements	8
ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	18
ITEM 3. Quantitative and Qualitative Disclosures About Market Risk	29
ITEM 4. Controls and Procedures	30
PART II – OTHER INFORMATION	
ITEM 1. Legal Proceedings	30
ITEM 1A. Risk Factors	30
ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds	31
ITEM 3. Defaults Upon Senior Securities	31
ITEM 4. Submission of Matters to a Vote of Security Holders	31
ITEM 5. Other Information	31
ITEM 6. Exhibits	31
SIGNATURES	32
INDEX TO EXHIBITS	33

PART I - FINANCIAL INFORMATION

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

	September 30, 2009 (unaudited)	December 31, 2008
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$1,198	$-
Accounts receivable, net	92,264	96,097
Refundable income taxes	154	103
Prepaid expenses and other current assets	9,528	12,370
Total current assets	103,144	108,570
PROPERTY AND EQUIPMENT, NET	182,945	193,104
OTHER ASSETS		
Goodwill	105,378	105,278
Other intangible assets	54,703	56,861
Deferred financing costs, net	8,898	10,907
Investment in joint ventures	17,939	17,637
Deposits and other	3,160	3,752
Total assets	$476,167	$496,109
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$66,565	$81,175
Due to affiliates	3,061	5,015
Notes payable	7,103	5,501
Current portion of deferred rent	506	390
Obligations under capital leases	14,851	15,064
Total current liabilities	92,086	107,145
LONG-TERM LIABILITIES		
Line of credit	-	1,742
Deferred rent, net of current portion	8,494	7,996
Deferred taxes	277	277
Notes payable, net of current portion	418,248	419,735
Obligations under capital lease, net of current portion	17,089	24,238
Other non-current liabilities	18,434	16,006
Total liabilities	554,628	577,139
COMMITMENTS AND CONTINGENCIES		
EQUITY DEFICIT		
Common stock - $.0001 par value, 200,000,000 shares authorized;		
36,184,279 and 35,911,474 shares issued and outstanding at		
September 30, 2009 and December 31, 2008, respectively	4	4
Paid-in-capital	155,943	153,006
Accumulated other comprehensive loss	(3,841)	(6,396)

Accumulated deficit	(230,626)	(227,722)
Total Radnet, Inc.'s equity deficit	(78,520)	(81,108)
Noncontrolling interests	59	78
Total equity deficit	(78,461)	(81,030)
Total liabilities and equity deficit	$476,167	$496,109

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
NET REVENUE	$133,404	$130,902	$392,553	$371,358
OPERATING EXPENSES				
Operating expenses	101,924	99,552	298,653	286,404
Depreciation and amortization	13,593	13,083	39,979	39,623
Provision for bad debts	8,386	7,065	24,729	20,640
Loss on sale of equipment	72	1,525	375	1,495
Severance costs	286	137	643	172
Total operating expenses	124,261	121,362	364,379	348,334
INCOME FROM OPERATIONS	9,143	9,540	28,174	23,024
OTHER EXPENSES (INCOME)				
Interest expense	12,367	12,126	37,715	38,230
Gain on bargain purchase	-	-	(1,387)	-
Other expenses (income)	(2)	(79)	1,239	(132)
Total other expenses	12,365	12,047	37,567	38,098
LOSS BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF JOINT VENTURES	(3,222)	(2,507)	(9,393)	(15,074)
Provision for income taxes	(231)	(14)	(281)	(151)
Equity in earnings of joint ventures	1,751	2,686	6,839	7,815
NET INCOME (LOSS)	(1,702)	165	(2,835)	(7,410)
Net income attributable to noncontrolling interests	24	27	69	76
NET INCOME (LOSS) ATTRIBUTABLE TO RADNET, INC. COMMON SHAREHOLDERS	$(1,726)	$138	$(2,904)	$(7,486)
BASIC NET INCOME (LOSS) PER SHARE ATTRIBUTABLE TO RADNET, INC. COMMON SHAREHOLDERS	$(0.05)	$0.00	$(0.08)	$(0.21)
DILUTED NET INCOME (LOSS) PER SHARE ATTRIBUTABLE TO RADNET, INC. COMMON SHAREHOLDERS	$(0.05)	$0.00	$(0.08)	$(0.21)

WEIGHTED AVERAGE SHARES OUTSTANDING				
Basic	36,105,149	35,759,779	35,982,558	35,669,400
Diluted	36,105,149	37,014,784	35,982,558	35,669,400

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

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

	Common Stock		Paid-in	Accumulated	Accumulated Other Comprehensive	Total Radnet, Inc.'s Equity	Noncontrolling	Total Equity
	Shares	Amount	Capital	Deficit	Loss	Deficit	Interests	Deficit
BALANCE - JANUARY 1, 2009	35,911,474	$ 4	$ 153,006	$ (227,722)	$ (6,396)	$ (81,108)	$ 78	$ (81,030)
Issuance of common stock upon exercise of options/warrants	272,805	-	-	-	-	-	-	-
Share-based compensation	-	-	2,937	-	-	2,937	-	2,937
Distributions to noncontrolling interests	-	-	-	-	-	-	(88)	(88)
Change in fair value and amortization of cash flow hedge	-	-	-	-	2,555	2,555	-	2,555
Net income (loss)				(2,904)		(2,904)	69	(2,835)
Comprehensive income (loss)	-	-	-	-	-	(349)	69	(280)
BALANCE - SEPTEMBER 30, 2009	36,184,279	$ 4	$ 155,943	$ (230,626)	$ (3,841)	$ (78,520)	$ 59	$ (78,461)

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

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

	Nine Months Ended September 30,	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$(2,835)	$(7,410)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	39,979	39,623
Provision for bad debts	24,729	20,640
Equity in earnings of joint ventures	(6,839)	(7,815)
Distributions from joint ventures	6,852	4,286
Deferred rent amortization	614	3,071
Amortization of deferred financing cost	2,009	1,862
Net loss on disposal of assets	375	1,495
Gain on bargain purchase	(1,387)	-
Amortization of cash flow hedge	4,895	-
Share-based compensation	2,937	1,887
Changes in operating assets and liabilities, net of assets acquired and liabilities assumed in purchase transactions:		
Accounts receivable	(20,896)	(37,619)
Other current assets	3,213	810
Other assets	592	(282)
Accounts payable and accrued expenses	(3,988)	1,793
Net cash provided by operating activities	50,250	22,341
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of imaging facilities	(3,917)	(28,649)
Proceeds from sale of imaging facilities	650	-
Purchase of property and equipment	(22,805)	(20,950)
Proceeds from sale of equipment	-	166
Purchase of equity interest in joint ventures	(315)	(728)
Net cash used in investing activities	(26,387)	(50,161)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on notes and leases payable	(17,684)	(13,976)
Proceeds from borrowings on notes payable	-	35,000
Deferred financing costs	-	(4,277)
Net (payments) proceeds on line of credit	(1,742)	10,877
Distributions to counterparties of cash flow hedges	(3,151)	-
Distributions to noncontrolling interests	(88)	(205)
Proceeds from issuance of common stock	-	383
Net cash (used in) provided by financing activities	(22,665)	27,802
NET INCREASE (DECREASE) IN CASH	1,198	(18)
CASH AND CAH EQUIVALENTS, beginning of period	-	18
CASH AND CASH EQUIVALENTS, end of period	$1,198	$-

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the period for interest	$32,046	$36,529

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

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

Supplemental Schedule of Non-Cash Investing and Financing Activities

We entered into capital leases and equipment notes for approximately $10.4 million and $21.4 million, excluding capital leases assumed in acquisitions, during the nine months ended September 30, 2009 and 2008, respectively. We also acquired equipment for approximately $8.2 million and $19.1 million during the nine months ended September 30, 2009 and 2008 that we had not paid for as of September 30, 2009 and 2008, respectively. The offsetting amount due was recorded in our consolidated balance sheet under accounts payable and accrued expenses.

We record the change in fair value of the effective portion of our interest rate swaps that are designated as cash flow hedges to accumulated other comprehensive loss. As such, we recorded unrealized gains (losses) as a component of other comprehensive loss of ($2.3 million) and of $813,000, for the nine months ended September 30, 2009 and 2008, respectively.

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

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

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

NOTE 1 - NATURE OF BUSINESS AND BASIS OF PRESENTATION

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

The consolidated financial statements include the accounts of RadNet Management, Inc. ("or RadNet Management") and Beverly Radiology Medical Group III, a professional partnership ("BRMG"). The consolidated financial statements also include RadNet 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 affililiated entities are referred to collectively in this report as "Radnet", "we", "us" 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 18% of our outstanding common stock. Dr. Berger also owns, indirectly, 99% of the equity interests in BRMG. BRMG provides all of the professional medical services at the majority of our facilities located in California under a management agreement with us, and contracts with various other independent physicians and physician groups to provide the professional medical services at most of our other California facilities. We generally obtain professional medical services from BRMG in California, rather than provide such services directly or through subsidiaries, in order to comply with California's prohibition against the corporate practice of medicine. However, as a result of our close relationship with Dr. Berger and BRMG, we believe that we are able to better ensure that medical service is provided at our California facilities in a manner consistent with our needs and expectations and those of our referring physicians, patients and payors than if we obtained these services from unaffiliated physician groups. BRMG is a partnership of Pronet Imaging Medical Group, Inc. (99%), Breastlink Medical Group, Inc. (100%) and Beverly Radiology Medical Group, Inc. (99%), each of which are 99% or 100% owned by Dr. Berger. RadNet provides non-medical, technical and administrative services to BRMG for which it receives a management fee, per the management agreement. Through the management agreement and our relationship with Dr. Berger, we have exclusive authority over all non-medical decision making related to the ongoing business operations of BRMG. Based on the provisions of the agreement, we have determined that BRMG is a variable interest entity, and that we are the primary beneficiary as defined in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 810 (ASC Topic 810, originally issued as Financial Accounting Standards Board (FASB) Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51 (FIN 46(R)), and consequently, we consolidate the revenue and expenses of BRMG. All intercompany balances and transactions have been eliminated in consolidation.

At a portion of our centers in California and at all of the centers which are located outside of California, we have entered into long-term contracts with independent radiology groups in the area to provide physician services at those facilities. These third party radiology practices provide professional services, including supervision and interpretation of diagnostic imaging procedures, in our diagnostic imaging centers. The radiology practices maintain full control over the provision of professional services. The contracted radiology practices generally have outstanding physician and practice credentials and reputations; strong competitive market positions; a broad sub-specialty mix of physicians; a history of growth and potential for continued growth. In these facilities we enter into long-term agreements with radiology practice groups (typically 40 years). Under these arrangements, in addition to obtaining technical fees for

the use of our diagnostic imaging equipment and the provision of technical services, we provide management services and receive a fee based on the practice group's professional revenue, including revenue derived outside of our diagnostic imaging centers. We own the diagnostic imaging equipment and, therefore, receive 100% of the technical reimbursements associated with imaging procedures. The radiology practice groups retain the professional reimbursements associated with imaging procedures after deducting management service fees. Our management service fees are included in net revenue in the consolidated statement of operations and totaled $7.6 million and $8.7 million for the three months ended September 30, 2009 and 2008, respectively, and $22.6 million and $24.9 million for the nine months ended September 30, 2009 and 2008, respectively. We have no financial controlling interest in the independent radiology practices, as defined in ASC Topic 810 (originally defined in EITF 97-2); accordingly, we do not consolidate the financial statements of those practices in our 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 September 30, 2009 and 2008 have been made. The results of operations for any interim period are not necessarily indicative of the results for a full year. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes thereto contained in our Annual Report on Form 10-K for the year ended December 31, 2008.

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

We have evaluated subsequent events through November 9, 2009, which represents the filing date of this Form 10-Q with the Securities and Exchange Commission.

Liquidity and Capital Resources

We had a working capital balance of $11.1 million and $1.4 million at September 30, 2009 and December 31, 2008, respectively. We had a net loss attributable to Radnet, Inc.'s common shareholders of $1.7 million, and net income attributable to Radnet, Inc.'s common shareholders of $138,000 for the three months ended September 30, 2009 and 2008, respectively. We had losses attributable to Radnet, Inc.'s common shareholders of $2.9 million and $7.5 million for the nine months ended September 30, 2009 and 2008, respectively. We also had a Radnet, Inc. shareholder equity deficit of $78.5 million and $81.0 million at September 30, 2009 and December 31, 2008, respectively.

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

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

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

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

NOTE 2 - RECENT AND PENDING ACCOUNTING STANDARDS AND PRONOUNCEMENTS

In June 2009, the FASB issued SFAS No. 167, Amendment to FASB Interpretation No. 46(R) (SFAS No. 167). SFAS No. 167 amends FIN 46(R), and changes the consolidation guidance applicable to a Variable Interest Entity (VIE). SFAS No. 167 requires the use of a qualitative analysis rather than a quantitative analysis to determine whether an enterprise is the primary beneficiary of a VIE, and is, therefore, required to consolidate the VIE. SFAS No. 167 also requires continuous reassessments of whether an enterprise is the primary beneficiary of a VIE, while FIN 46(R) only requires reconsideration of the primary beneficiary of a VIE when specific events occur. This new pronouncement also requires enhanced disclosures about an enterprise's involvement with a VIE. SFAS No. 167 will be effective for interim and annual reporting periods beginning after November 15, 2009. Although we have not completed our assessment, we believe the adoption of SFAS No. 167 will not have a material impact on our financial position, results of operations or cash flows.

FASB Accounting Standards Codification

During the three months ended September 30, 2009, the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC" or "Codification") became the authoritative source of accounting principles accepted in the United States ("GAAP") recognized by the FASB. All existing FASB accounting standards and guidance were superseded by the ASC. Instead of issuing new accounting standards in the form of statements, FASB staff positions and Emerging Issues Task Force abstracts, the FASB now issues Accounting Standards Updates that update the Codification. Rules and interpretive releases of the Securities and Exchange Commission ("SEC") under authority of federal securities laws continue to be additional sources of authoritative GAAP for SEC registrants.

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force), the AICPA, and the SEC did not, or are not believed by management to, have a material impact on our present or future consolidated financial statements.

NOTE 3 - FACILITY ACQUISITIONS

Medical Resources, Inc.

On June 12, 2009, we acquired the assets and business of nine imaging centers located in New Jersey from Medical Resources, Inc. for approximately $2.1 million. At the time of the acquisition, we immediately sold the assets and business of one of those nine centers to an unrelated third party for approximately $650,000. We have made a preliminary purchase price allocation of the acquired assets and liabilities associated with the remaining eight centers at their respective fair values in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 805 (ASC Topic 805, originally issued as Statement of Financial Accounting Standards No. 141 (R), Business Combinations.

In accordance with ASC Topic 805, 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. If new information is obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement of the amounts recognized for assets acquired and liabilities assumed, the Company will retrospectively adjust the amounts recognized as of the acquisition date. The final acquisition consideration and allocation thereof may change significantly from these estimates.

We believe that the gain on bargain purchase resulted from various factors that impacted the sale of those 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.

In our preliminary purchase price allocation we recorded approximately $3.1 million of land and fixed assets, $250,000 of intangible assets and $121,000 of other current assets.

Inter-County Imaging.

On March 31, 2009, we acquired the assets and business of Inter-County Imaging in Yonkers, NY for approximately $553,000. We have made a preliminary purchase price allocation of the acquired assets and liabilities, and approximately $500,000 of fixed assets and no goodwill was recorded with respect to this transaction.

Elite Diagnostic Imaging LLC.

On March 27, 2009, we acquired the assets and business of Elite Diagnostic Imaging, LLC in Victorville, CA for approximately $1.3 million. We have made a preliminary purchase price allocation of the acquired assets and liabilities, and approximately $1.2 million of fixed assets and $100,000 of goodwill was recorded with respect to this transaction.

NOTE 4 - INCOME (LOSS) PER SHARE ATTRIBUTABLE TO RADNET, INC.'S COMMON SHAREHOLDERS

We utilize Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 260 (ASC Topic 260, originally issued as Statement of Financial Accounting Standards SFAS No. 128, "Earnings per Share." Basic earnings (loss) per share is computed by dividing earnings (loss) available to common stockholders by the weighted-average number of common shares outstanding. Diluted earnings (loss) per share is computed similar to basic earnings (loss) per share except that the denominator is increased to include additional common shares available upon exercise of stock options and warrants using the treasury stock method, except for periods of operating loss for which no common share equivalents are included because their effect would be anti-dilutive Loss per share attributable to Radnet, Inc.'s common shareholders for the three and nine month periods ended September 30, 2009 and 2008 was calculated as follows (in thousands except share and per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Net income (loss) attributable to Radnet, Inc.'s common shareholders	$ (1,726)	$ 138	$ (2,904)	$ (7,486)
BASIC LOSS PER SHARE ATTRIBUTABLE TO RADNET, INC.'S COMMON SHAREHOLDERS				
Weighted average number of common shares outstanding during the year	36,105,149	35,759,779	35,982,558	35,669,400
Basic loss per share attributable to Radnet, Inc.'s common shareholders	$ (0.05)	$ 0.00	$ (0.08)	$ (0.21)
DILUTED LOSS PER SHARE ATTRIBUTABLE TO RADNET, INC.'S COMMON SHAREHOLDERS				
Weighted average number of common shares outstanding during the year	36,105,149	35,759,779	35,982,558	35,669,400
Add additional shares issuable upon exercise of stock options and warrants	-	1,255,005	-	-
Weighted average number of common shares used in calculating diluted loss per share	36,105,149	37,014,784	35,982,558	35,669,400
Diluted loss per share attributable to Radnet, Inc.'s common shareholders	$ (0.05)	$ 0.00	$ (0.08)	$ (0.21)

For the three months ended September 30, 2009 and the nine months ended September 30, 2009 and 2008, we excluded all options and warrants in the calculation of diluted loss per share because their effect is antidilutive.

NOTE 5 - DERIVITIVE INSTRUMENTS

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 815 (ASC Topic 815, originally issued as Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities), requires companies to recognize all of their derivative instruments as either assets or liabilities in the statement of financial position at fair value. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, a company must designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge, cash flow hedge, or a hedge of a net investment in a foreign operation.

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.

In accordance with ASC Topic 815, 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 3.61% 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, is being amortized on a straight-line basis to interest expense through November 15, 2009, the maturity date of the original cash flow hedges. As of September 30, 2009, after amortization of $4.9 recorded in the first three quarters of 2009, the remaining unamortized AOCL associated with the original cash flow hedges was $1.2 million.

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 Stockholders' Equity Deficit. The remaining gain or loss, if any, is recognized currently in earnings.

A tabular presentation of the fair value of derivative instruments as of September 30, 2009 is as follows (amounts in thousands):

	Balance Sheet Location	Fair Value – Asset (Liability) Derivatives
Derivatives designated as hedging instruments under ASC Topic 815		
Interest rate contracts	Other non-current liabilities	$(9,929)

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 September 30, 2009

Derivatives in ASC Topic 815 – Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion)	Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain (Loss) Recognized in OCI During the Term of the Hedge Relationship Reclassified into Income (Effective Portion)	Location of Gain (Loss) Recognized in OCI During the Term of the Hedge Relationship Reclassified into Income (Effective Portion)
Interest rate contracts	($ 1,856)	Interest income/ (expense)	* ($1,836)	Interest income/(expense)

For the Nine Months Ended September 30, 2009

Derivatives in ASC Topic 815 – Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion)	Location of Loss Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain (Loss) Recognized in OCI During the Term of the Hedge Relationship Reclassified into Income (Effective Portion)	Location of Gain (Loss) Recognized in OCI During the Term of the Hedge Relationship Reclassified into Income (Effective Portion)
Interest rate contracts	($ 2,341)	Interest income/ (expense)	* ($4,895)	Interest income/(expense)

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

NOTE 6 - INVESTMENT IN JOINT VENTURES

We have eight unconsolidated joint ventures with ownership interests ranging from 18% to 50%. These joint ventures represent partnerships with hospitals, health systems or radiology practices and were formed for the purpose of owning and operating diagnostic imaging centers. Professional services at the joint venture diagnostic imaging centers are performed by contracted radiology practices or a radiology practice that participates in the joint venture. Our investment in these joint ventures is accounted for under the equity method. Investment in joint

ventures increased $302,000 to $17.9 million at September 30, 2009 compared to $17.6 million at December 31, 2008. This increase is primarily related to our purchase of an additional $315,000 of share holdings in joint ventures that were existing as of December 31, 2008 as well as our equity earnings, net of eliminating all inter company profits, of $6.8 million for the nine months ended September 30, 2009, offset by $6.8 million of distributions received during the period.

We received management service fees from the centers underlying these joint ventures of approximately $1.6 million and $1.8 million for the three months ended September 30, 2009 and 2008, respectively, and $5.4 million and $5.5 million for the nine months ended September 30, 2009 and 2008, respectively.

The following table is a summary of key financial data for these joint ventures as of and for the nine months ended September 30, 2009 (in thousands):

Balance Sheet Data:	September 30, 2009
Current assets	$ 19,669
Noncurrent assets	28,471
Current liabilities	(6,767)
Noncurrent liabilities	(8,383)
Total net assets	$ 32,990
Book value of Radnet joint venture interests	$ 14,348
Cost in excess of book value of acquired joint venture interests	3,383
Elimination of intercompany profit remaining on Radnet's consolidated balance sheet	208
Total value of Radnet joint venture interests	$ 17,939
Total book value of other joint venture partner interests	$ 18,642
Net revenue	$ 56,826
Net income	$ 10,334

NOTE 7 - SHARE 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 shareholders in 2006. We have reserved for issuance under the 2006 Plan 6,500,000 shares of common stock. Certain 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 September 30, 2009, 1,855,583, or approximately 46.6%, of all the outstanding stock options and warrants under our option plans are fully vested. During the nine months ended September 30, 2009, we granted options and warrants to acquire 1,733,750 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 September 30, 2009, 2,486,232, or approximately 80.6%, of all the outstanding warrants outside the 2006 Plan are fully vested. During the nine months ended September 30, 2009, we did not grant any warrants outside the 2006 Plan.

The compensation expense recognized for all equity-based awards is net of estimated forfeitures and is recognized over the awards' service period. In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 718 (ASC Topic 718, originally issued as Staff Accounting Bulletin (“SAB”) No. 110, Valuation of Share Based Payment arraignments for Public Companies), we classified equity-based compensation in operating expenses with the same line item as the majority of the cash compensation paid to employees.

The following tables illustrate the impact of equity-based compensation on reported amounts (in thousands except per share data):

	For the Three Months Ended September 30,			
	2009		2008	
	Impact of Equity-Based Compensation			
	As Reported	Comp.	As Reported	Comp.
Income from operations	$9,143	$(712)	$9,540	$(831)
Income (loss) attributable to Radnet, Inc.'s common shareholders before income taxes	$(1,495)	$(712)	$152	$(831)
Net Income (loss) attributable to Radnet, Inc.'s common shareholders	$(1,726)	$(712)	$138	$(831)
Net basic earnings per share attributable to Radnet, Inc.'s common shareholders	$(0.05)	$(0.02)	$0.00	$(0.02)
Net diluted earnings per share attributable to Radnet, Inc.'s common shareholders	$(0.05)	$(0.02)	$0.00	$(0.02)

	For the Nine Months Ended September 30,			
	2009		2008	
	Impact of Equity-Based Compensation			
	As Reported	Comp.	As Reported	Comp.
Income from operations	$28,174	$(2,937)	$23,024	$(1,887)
Loss attributable to Radnet, Inc.'s common shareholders before income taxes	$(2,623)	$(2,937)	$(7,335)	$(1,887)
Net loss attributable to Radnet, Inc.'s common shareholders	$(2,904)	$(2,937)	$(7,486)	$(1,887)
Net basic earnings per share attributable to Radnet, Inc.'s common shareholders	$(0.08)	$(0.08)	$(0.21)	$(0.05)
Net diluted earnings per share attributable to Radnet, Inc.'s common shareholders	$(0.08)	$(0.08)	$(0.21)	$(0.05)

The following summarizes all of our option and warrant activity for the nine months ended September 30, 2009:

Outstanding Options and Warrants Under the 2006 Plan	Shares	Weighted Average Exercise price Per Common Share	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value
Balance, December 31, 2008	2,451,000	$5.44		
Granted	1,733,750	2.41		
Exercised	-	-		
Canceled or expired	(200,000)	5.01		
Balance, September 30, 2009	3,984,750	4.14	4.36	$646,733
Exercisable at September 30, 2009	1,855,583	4.11	4.11	473,991

15

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, 2008	3,432,898	$2.07		
Granted	-	-		
Exercised	(350,000)	0.64		
Canceled or expired	-	-		
Balance, September 30, 2009	3,082,898	2.23	2.55	$ 2,902,360
Exercisable at September 30, 2009	2,486,232	1.75	2.56	2,830,760

The aggregate intrinsic value in the table above represents the difference between our closing stock price on September 30, 2009 and the exercise price, multiplied by the number of in-the-money options and warrants on September 30, 2009. Total intrinsic value of options and warrants exercised during the nine months ended September 30, 2009 was approximately $811,500. As of September 30, 2009, total unrecognized share-based compensation expense related to non-vested employee awards was approximately $5.5 million, which is expected to be recognized over a weighted-average period of approximately 2.2 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
September 30, 2009	2.65%	3.1 years	91.45%	-
September 30, 2008	2.75%	3.7 years	74.68%	-

We have determined the expected term assumption under the "Simplified Method" as defined in ASC Topic 718, originally issued as SAB No. 110. 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 nine months ended September 30, 2009 and 2008 was $1.43 and $4.20, respectively.

NOTE 8 - FAIR VALUE MEASUREMENTS

ASC Topic 820 (originally issued as SFAS 157, Fair Value Measurements), defines fair value, establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States, and expands disclosures about fair value measurements. We adopted the provisions of ASC Topic 820 as of January 1,

2008 for financial instruments. Although the adoption of ASC Topic 820 did not materially impact our financial position, results of operations, or cash flow, we are now required to provide additional disclosures as part of our financial statements.

ASC Topic 820 establishes 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 September 30, 2009, based on Level 2 inputs, we determined the fair values of our first and second lien term loans issued on November 15, 2006 and extended on August 23, 2007 to be $231.1 million and $163.2 million, respectively. The carrying amount of the first and second lien term loans at September 30, 2009 was $243.3 million and $170.0 million, respectively.

The Company maintains interest rate swaps which are required to be recorded at fair value on a recurring basis. At September 30, 2009 the fair value of these swaps of a liability of $9.9 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 condensed consolidated financial statements the provisions of 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.

NOTE 10 - SUBSEQUENT EVENTS

On October 1, 2009, we completed the acquisition of the imaging assets of Chesapeake Urology Associates in Baltimore, Maryland for approximately $900,000. Chesapeake Urology operated CT scanners in three locations in the greater Baltimore area.

On October 1, 2009, we completed the acquisition of the women's imaging business of Ridgewood Diagnostics, a multi-modality women's imaging practice located near Rochester, New York's Unity Hospital for $1.1 million and 50,000 shares of RadNet common stock. In conjunction with the Ridgewood Diagnostics transaction, on October 16, 2009, we completed the acquisition of the women's imaging business of Unity Hospital for $100,000. We plan to consolidate the Ridgewood Diagnostics and Unity Hospital operations into one facility during 2010.

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, 2008, 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 2008 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.

We operate a group of regional networks comprised of 175 diagnostic imaging facilities located in seven states with operations primarily in California, Maryland, the Treasure Coast area of Florida, Kansas, Delaware, New Jersey and the Finger Lakes (Rochester) and Hudson Valley areas of New York. Diagnostic imaging uses non-invasive procedures to generate representations of internal anatomy and function that can facilitate the early diagnosis and treatment of diseases and disorders and may reduce unnecessary invasive procedures often minimizing the cost and amount of care for patients. Services at our facilities include magnetic resonance imaging ("MRI"), computed tomography ("CT"), positron emission tomography ("PET"), nuclear medicine, mammography, ultrasound, diagnostic radiology, or X-ray, and fluoroscopy. The Company's operations comprise a single segment for financial reporting purposes.

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

During the nine months ended September 30, 2009 we continued to improve on a number of these operating objectives. Revenue increased at our existing facilities over the prior year period, primarily as a result of an increase in the number of procedures. We have maintained tight control on major expenses including salaries and professional reading fees. In addition, on June 12, 2009 we continued the expansion of our networks with the acquisition of the assets and business of nine imaging centers located in New Jersey from Medical Resources, Inc.

The following discussion should be read along with the unaudited consolidated condensed financial statements included in this Form 10-Q, as well as the Company's 2008 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.

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

The consolidated financial statements include the accounts of RadNet Management, Inc. ("or RadNet Management") and Beverly Radiology Medical Group III, a professional partnership ("BRMG"). The consolidated financial statements also include RadNet 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 affililiated entities are referred to collectively in this report as "Radnet", "we", "us" or the "Company".

Howard G. Berger, M.D. is our President and Chief Executive Officer, a member of our Board of Directors and owns approximately 18% of our outstanding common stock. Dr. Berger also owns, indirectly, 99% of the equity interests in BRMG. BRMG provides all of the professional medical services at the majority of our facilities located in California under a management agreement with us, and contracts with various other independent physicians and physician groups to provide the professional medical services at most of our other California facilities. We generally obtain professional medical services from BRMG in California, rather than provide such services directly or through subsidiaries, in order to comply with California's prohibition against the corporate practice of medicine. However, as a result of our close relationship with Dr. Berger and BRMG, we believe that we are able to better ensure that medical service is provided at our California facilities in a manner consistent with our needs and expectations and those of our referring physicians, patients and

payors than if we obtained these services from unaffiliated physician groups. BRMG is a partnership of Pronet Imaging Medical Group, Inc. (99%), Breastlink Medical Group, Inc. (100%) and Beverly Radiology Medical Group, Inc. (99%), each of which are 99% or 100% owned by Dr. Berger. RadNet provides non-medical, technical and administrative services to BRMG for which it receives a management fee, per the management agreement. Through the management agreement and our relationship with Dr. Berger, we have exclusive authority over all non-medical decision making related to the ongoing business operations of BRMG. Based on the provisions of the agreement, we have determined that BRMG is a variable interest entity, and that we are the primary beneficiary as defined in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 810 (ASC Topic 810, originally issued as Financial Accounting Standards Board (FASB) Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51 (FIN 46(R)), and consequently, we consolidate the revenue and expenses of BRMG. All intercompany balances and transactions have been eliminated in consolidation.

At a portion of our centers in California and at all of the centers which are located outside of California, we have entered into long-term contracts with independent radiology groups in the area to provide physician services at those facilities. These third party radiology practices provide professional services, including supervision and interpretation of diagnostic imaging procedures, in our diagnostic imaging centers. The radiology practices maintain full control over the provision of professional services. The contracted radiology practices generally have outstanding physician and practice credentials and reputations; strong competitive market positions; a broad sub-specialty mix of physicians; a history of growth and potential for continued growth. In these facilities we enter into long-term agreements with radiology practice groups (typically 40 years). Under these arrangements, in addition to obtaining technical fees for the use of our diagnostic imaging equipment and the provision of technical services, we provide management services and receive a fee based on the practice group's professional revenue, including revenue derived outside of our diagnostic imaging centers. We own the diagnostic imaging equipment and, therefore, receive 100% of the technical reimbursements associated with imaging procedures. The radiology practice groups retain the professional reimbursements associated with imaging procedures after deducting management service fees. Our management service fees are included in net revenue in the consolidated statement of operations and totaled $7.6 million and $8.7 million for the three months ended September 30, 2009 and 2008, respectively, and $22.6 million and $24.9 million for the nine months ended September 30, 2009 and 2008, respectively. We have no financial controlling interest in the independent radiology practices, as defined in ASC Topic 810 (originally defined in EITF 97-2); accordingly, we do not consolidate the financial statements of those practices in our consolidated financial statements.

Critical Accounting Estimates

Our discussion and analysis of financial condition and results of operations are based on our consolidated financial statements that were prepared in accordance with 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.

As of the period covered in this report, there have been no material changes to the critical accounting estimates we use, and have explained, in our annual report on Form 10-K for the fiscal year ended December 31, 2008.

Results of Operations

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
NET REVENUE	100.00%	100.00%	100.00%	100.00%
OPERATING EXPENSES				
Operating expenses	76.40%	76.05%	76.08%	77.12%
Depreciation and amortization	10.19%	9.99%	10.18%	10.67%
Provision for bad debts	6.29%	5.40%	6.30%	5.56%
Loss on sale of equipment	0.05%	1.16%	0.10%	0.40%
Severance costs	0.21%	0.10%	0.16%	0.05%
Total operating expenses	93.15%	92.71%	92.82%	93.80%
INCOME FROM OPERATIONS	6.85%	7.29%	7.18%	6.20%
OTHER EXPENSES (INCOME)				
Interest expense	9.27%	9.26%	9.61%	10.29%
Gain on bargain purchase	0.00%	0.00%	-0.35%	0.00%
Other expenses (income)	0.00%	-0.06%	0.32%	-0.04%
Total other expenses	9.27%	9.20%	9.57%	10.26%
LOSS BEFORE INCOME TAXES AND EQUITY				
IN EARNINGS OF JOINT VENTURES	-2.42%	-1.92%	-2.39%	-4.06%
Provision for income taxes	-0.17%	-0.01%	-0.07%	-0.04%
Equity in earnings of joint ventures	1.31%	2.05%	1.74%	2.10%
NET INCOME (LOSS)	-1.28%	0.13%	-0.72%	-2.00%
Net income attributable to noncontrolling interests	0.02%	0.02%	0.02%	0.02%
NET INCOME (LOSS) ATTRIBUTABLE TO RADNET, INC.				
COMMON SHAREHOLDERS	-1.29%	0.11%	-0.74%	-2.02%

Three Months Ended September 30, 2009 Compared to the Three Months Ended September 30, 2008

Net Revenue

Net revenue for the three months ended September 30, 2009 was $133.4 million compared to $130.9 million for the three months ended September 30, 2008, an increase of $2.5 million, or 2.4%.

Net revenue, including only those centers which were in operation throughout the third quarters of both 2009 and 2008, increased $82,000, or 0.06%. This 0.06% increase is mainly due to an increase in procedure volumes. This comparison excludes revenue contributions from centers that were acquired or divested subsequent to July 1, 2008. For the three months ended September 30, 2009, net revenue from centers that were acquired subsequent to

July 1, 2008 and excluded from the above comparison was $4.5 million. For the three months ended September 30, 2008, net revenue from centers that were acquired subsequent to July 1, 2008 and excluded from the above comparison was $662,000. Also excluded from the above comparison was $1.4 million from centers that were divested subsequent to July 1, 2008.

Operating Expenses

Operating expenses for the three months ended September 30, 2009 increased approximately $2.4 million, or 2.4%, from $99.5 million for the three months ended September 30, 2008 to $101.9 million for the three months ended September 30, 2009. The following table sets forth our operating expenses for the three months ended September 30, 2009 and 2008 (in thousands):

	Three Months Ended September 30,	
	2009	2008
Salaries and professional reading fees, excluding share-based compensation	$ 55,001	$ 54,217
Share-based compensation	712	831
Building and equipment rental	10,896	10,969
Medical supplies	8,070	8,488
Other operating expense *	27,245	25,047
Operating expenses	101,924	99,552
Depreciation and amortization	13,593	13,083
Provision for bad debts	8,386	7,065
Loss on sale of equipment, net	72	1,525
Severance costs	286	137
Total operating expenses	$ 124,261	$ 121,362

* 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 share-based compensation and severance

Salaries and professional reading fees increased $784,000, or 1.5%, to $55.0 million for the three months ended September 30, 2009 compared to $54.2 million for the three months ended September 30, 2008.

Salaries and professional reading fees including only those centers which were in operation throughout the third quarters of both 2009 and 2008 increased $191,000, or 0.4%. This 0.4% increase is primarily due to increases is professional reading fees that are driven by procedure volumes. This comparison excludes contributions from centers that were acquired or divested subsequent to July 1, 2008. For the three months ended September 30, 2009, salaries and professional reading fees from centers that were acquired subsequent to July 1, 2008 and excluded from the above comparison was $1.5 million. For the three months ended September 30, 2008, salaries and professional reading fees from centers that were acquired subsequent to July 1, 2008 and excluded from the above comparison was $66,000. Also excluded from the above comparison was $848,000 from centers that were divested subsequent to July 1, 2008.

Share-based compensation

Share-based compensation decreased $119,000, or 14.3%, to $712,000 for the three months ended September 30, 2009 compared to $831,000 for the three months ended September 30, 2008. Share-based compensation for the three months ended September 30, 2008 includes additional expense related to certain options granted during the third quarter of 2008 that were fully vested on the date of grant.

Building and equipment rental

Building and equipment rental expenses decreased $73,000, or 0.7%, to $10.9 million for the three months ended September 30, 2009 compared to $11.0 million for the three months ended September 30, 2008.

Building and equipment rental expenses including only those centers which were in operation throughout the third quarters of both 2009 and 2008, decreased $533,000, or 4.9%. This 4.9% decrease is primarily due to the conversion of certain equipment lease contracts from operating to capital leases in the first quarter of 2009. This comparison excludes contributions from centers that were acquired or divested subsequent to July 1, 2008. For the three months ended September 30, 2009, building and equipment rental expenses from centers that were acquired subsequent to July 1, 2008 and excluded from the above comparison was $584,000. For the three months ended September 30, 2008, building and equipment rental expenses from centers that were acquired subsequent to July 1, 2008 and excluded from the above comparison was $47,000. Also excluded from the above comparison was $77,000 from centers that were divested subsequent to July 1, 2008.

Medical supplies

Medical supplies expense decreased $418,000, or 4.9%, to $8.1 million for the three months ended September 30, 2009 compared to $8.5 million for the three months ended September 30, 2008.

Medical supplies expenses, including only those centers which were in operation throughout the third quarters of both 2009 and 2008, decreased $393,000, or 4.7%. This 4.7% decrease is primarily due to a change in vendors supplying certain drugs used in operating our Breastlink centers. This comparison excludes contributions from centers that were acquired or divested subsequent to July 1, 2008. For the three months ended September 30, 2009, medical supplies expense from centers that were acquired subsequent to July 1, 2008 and excluded from the above comparison was $142,000. For the three months ended September 30, 2008, medical supplies expense from centers that were acquired subsequent to July 1, 2008 and excluded from the above comparison was $19,000. Also excluded from the above comparison was $148,000 from centers that were divested subsequent to July 1, 2008.

Depreciation and amortization

Depreciation and amortization increased $510,000, or 3.9%, to $13.6 million for the three months ended September 30, 2009 compared to the same period last year. The increase is primarily due to the addition of equipment at new and existing centers as well as the capitalization of certain equipment previously held under operating leases.

Provision for bad debts

Provision for bad debts increased $1.3 million, or 18.7%, to $8.4 million, or 6.3% of net revenue, for the three months ended September 30, 2009 compared to $7.1 million, or 5.4% of net revenue, for the three months ended September 30, 2008. We increased our provision for bad debts as a percentage of net revenue in light of the current economic slow down and our expectations concerning a decrease in collections related to the patient portion of our total billings that we may experience in subsequent quarters.

Interest expense

Interest expense for the three months ended September 30, 2009 was $12.4 million compared to $12.1 million for the three months ended September 30, 2008. The interest expense for the three months ended September 30, 2009 includes $1.8 million of amortization of Other Comprehensive Income associated with the modification of two interest rate swaps designated as cash flow hedges (see Liquidity and Capital Resources below) and amortization of deferred loan costs of $670,000.

Income tax expense

For the three months ended September 30, 2009 and 2008, we recorded $231,000 and $14,000, 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 three months ended September 30, 2009, we recognized equity in earnings from unconsolidated joint ventures of $1.8 million compared to $2.7 million for the three months ended September 30, 2008. This variance is due to a combination of decreases in our collection rates and increases in our repair and maintenance costs associated with new equipment transitioning from warranty to maintenance contracts in the third quarter of 2009.

Nine Months Ended September 30, 2009 Compared to the Nine Months Ended September 30, 2008

Net Revenue

Net revenue for the nine months ended September 30, 2009 was $392.6 million compared to $371.4 million for the nine months ended September 30, 2008, an increase of $21.2 million, or 5.7%.

Net revenue, including only those centers which were in operation throughout the three quarters of both 2009 and 2008, increased $6.9 million, or 2.0%. This 2.0% increase is mainly due to an increase in procedure volumes. This comparison excludes revenue contributions from centers that were acquired or divested subsequent to December 31, 2007. For the nine months ended September 30, 2009, net revenue from centers that were acquired subsequent to December 31, 2007 and excluded from the above comparison was $50.2 million. For the nine months ended September 30, 2008, net revenue from centers that were acquired subsequent to December 31, 2007 and excluded from the above comparison was $31.1 million. Also excluded from the above comparison was $4.8 million from centers that were divested subsequent to December 31, 2007.

Operating Expenses

Operating expenses for the nine months ended September 30, 2009 increased approximately $12.3 million, or 4.3%, from $286.4 million for the nine months ended September 30, 2008 to $298.7 million for the nine months ended September 30, 2009. The following table sets forth our operating expenses for the nine months ended September 30, 2009 and 2008 (in thousands):

	Nine Months Ended September 30,	
	2009	2008
Salaries and professional reading fees, excluding share-based compensation	$ 160,839	$ 157,279
Share-based compensation	2,936	1,887
Building and equipment rental	32,518	31,861
Medical supplies	24,529	21,912
Other operating expense *	77,831	73,465
Operating expenses	298,653	286,404
Depreciation and amortization	39,979	39,623
Provision for bad debts	24,729	20,640
Loss on sale of equipment, net	375	1,495
Severance costs	643	172
Total operating expenses	$ 364,379	$ 348,334

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

24

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

Salaries and professional reading fees increased $3.5 million, or 2.3%, to $160.8 million for the nine months ended September 30, 2009 compared to $157.3 million for the nine months ended September 30, 2008.

Salaries and professional reading fees, including only those centers which were in operation throughout the three quarters of both 2009 and 2008, decreased $1.7 million, or 1.2%. This 1.2% decrease is primarily due to cost cutting measures implemented in the third quarter of 2008. This comparison excludes contributions from centers that were acquired or divested subsequent to December 31, 2007. For the nine months ended September 30, 2009, salaries and professional reading fees from centers that were acquired subsequent to December 31, 2007 and excluded from the above comparison was $18.9 million. For the nine months ended September 30, 2008, salaries and professional reading fees from centers that were acquired subsequent to December 31, 2007 and excluded from the above comparison was $11.3 million. Also excluded from the above comparison was $2.4 million from centers that were divested subsequent to December 31, 2007.

Share-based compensation

Share-based compensation increased $1.0 million, or 55.6%, to $2.9 million for the nine months ended September 30, 2009 compared to $1.9 million for the nine months ended September 30, 2008. The increase is primarily due to additional options granted during the first half of 2009 some of which were fully vested on the date of grant.

Building and equipment rental

Building and equipment rental expenses increased $657,000, or 2.1%, to $32.5 million for the nine months ended September 30, 2009 compared to $31.9 million for the nine months ended September 30, 2008.

Building and equipment rental expenses, including only those centers which were in operation throughout the three quarters of both 2009 and 2008, decreased $1.0 million, or 3.5%. This 3.5% decrease is primarily due to the conversion of certain equipment lease contracts from operating to capital leases in the first quarter of 2009. This comparison excludes contributions from centers that were acquired or divested subsequent to December 31, 2007. For the nine months ended September 30, 2009, building and equipment rental expenses from centers that were acquired subsequent to December 31, 2007 and excluded from the above comparison was $4.0 million. For the nine months ended September 30, 2008, building and equipment rental expenses from centers that were acquired subsequent to December 31, 2007 and excluded from the above comparison was $2.1 million. Also excluded from the above comparison was $260,000 from centers that were divested subsequent to December 31, 2007.

Medical supplies

Medical supplies expense increased $2.6 million, or 11.9%, to $24.5 million for the nine months ended September 30, 2009 compared to $21.9 million for the nine months ended September 30, 2008.

Medical supplies expenses, including only those centers which were in operation throughout the three quarters of both 2009 and 2008, increased $803,000, or 5.3%. This 5.3% increase is in line with procedure volumes and net revenues generated at these existing centers. This comparison excludes contributions from centers that were acquired or divested subsequent to December 31, 2007. For the nine months ended September 30, 2009, medical supplies expense from centers that were acquired subsequent to December 31, 2007 and excluded from the above comparison was $8.7 million. For the nine months ended September 30, 2008, medical supplies expense from centers that were acquired subsequent to December 31, 2007 and excluded from the above comparison was $6.5 million. Also excluded from the above comparison was $404,000 from centers that were divested subsequent to December 31, 2007.

Depreciation and amortization

Depreciation and amortization increased $356,000, or 0.9%, to $40.0 million for the nine months ended September 30, 2009 compared to the same period last year. The increase is due in part to increases to depreciation expense on new imaging equipment offset by the completion of amortization schedules related to covenant-not-to-compete contracts in early 2009.

Provision for bad debts

Provision for bad debts increased $4.1 million, or 19.8%, to $24.7 million, or 6.3% of net revenue, for the nine months ended September 30, 2009 compared to $20.6 million, or 5.6% of net revenue, for the nine months ended September 30, 2008. We increased our provision for bad debts as a percentage of net revenue in light of the current economic slow down and our expectations concerning a decrease in collections related to the patient portion of our total billings that we may experience in subsequent quarters.

Interest expense

Interest expense for the nine months ended September 30, 2009 was $37.7 million compared to $38.2 million for the nine months ended September 30, 2008. The interest expense for the nine months ended September 30, 2009 includes $4.9 million of amortization of Other Comprehensive Income associated with the modification of two interest rate swaps designated as cash flow hedges (see Liquidity and Capital Resources below) and amortization of deferred loan costs of $2.0 million.

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. (see Note 3 to the interim condensed consolidated financial statement for more details).

In accordance with ASC Topic 805, 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. If new information is obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement of the amounts recognized for assets acquired and liabilities assumed, the Company will retrospectively adjust the amounts recognized as of the acquisition date. The final acquisition consideration and allocation thereof may change significantly from these estimates.

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.

Other expense (income)

For the nine months ended September 30, 2009 we recorded $1.2 million of other expense primarily related to litigation.

Income tax expense

For the nine months ended September 30, 2009 and 2008, we recorded $281,000 and $151,000, 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 nine months ended September 30, 2009, we recognized equity in earnings from unconsolidated joint ventures of $6.8 million compared to $7.8 million for the nine months ended September 30, 2008. This variance is due to a combination of decreases in our collection rates and increases in our repair and maintenance costs associated with new equipment transitioning from warranty to maintenance contracts in the third quarter of 2009.

Liquidity and Capital Resources

On November 15, 2006, we entered into a $405 million senior secured credit facility with GE Commercial Finance Healthcare Financial Services (the “November 2006 Credit Facility”). This facility was used to finance our acquisition of Radiologix, refinance existing indebtedness, pay transaction costs and expenses relating to our acquisition of Radiologix, and provide financing for working capital needs post-acquisition. The facility consists of a revolving credit facility of up to $45 million, a $225 million first lien Term Loan and a $135 million second lien Term Loan. The revolving credit facility has a term of five years, the term loan has a term of six years and the second lien term loan has a term of six and one-half years. Interest is payable on all loans initially at an Index Rate plus the Applicable Index Margin, as defined. The Index Rate is initially a floating rate equal to the higher of the rate quoted from time to time by The Wall Street Journal as the "base rate on corporate loans posted by at least 75% of the nation's largest 30 banks" or the Federal Funds Rate plus 50 basis points. The Applicable Index Margin on each of the revolving credit facility and the term loan is 2% and on the second lien term loan is 6%. We may request that the interest rate instead be based on LIBOR plus the Applicable LIBOR Margin, which is 3.5% for the revolving credit facility and the term loan and 7.5% for the second lien term loan. The credit facility includes customary covenants for a facility of this type, including minimum fixed charge coverage ratio, maximum total leverage ratio, maximum senior leverage ratio, limitations on indebtedness, contingent obligations, liens, capital expenditures, lease obligations, mergers and acquisitions, asset sales, dividends and distributions, redemption or repurchase of equity interests, subordinated debt payments and modifications, loans and investments, transactions with affiliates, changes of control, and payment of consulting and management fees.

On August 23, 2007, we secured an incremental $35 million (“Incremental Facility”) as part of our existing credit facilities with GE Commercial Finance Healthcare Financial Services. The Incremental Facility consists of an additional $25 million as part of our first lien Term Loan and $10 million of additional capacity under our existing revolving line of credit. Borrowings under the Incremental Facility were used to fund strategic initiatives and for general corporate purposes.

On February 22, 2008, we secured a second incremental $35 million (“Second Incremental Facility”) of capacity as part of our existing credit facilities with GE Commercial Finance Healthcare Financial Services. The Second Incremental Facility consists of an additional $35 million as part of our second lien term loan and the first lien term loan or revolving credit facility may be increased by up to an additional $40 million sometime in the future. As part of the transaction, partly due to the drop in LIBOR of over 2.00% since the credit facilities were established in November 2006, we increased the Applicable LIBOR Margin to 4.25% for the revolving credit facility and first lien term loan and to 9.0% for the second lien term loan. The additions to our existing credit facilities are intended to provide capital for near-term opportunities and future expansion.

As part of 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.

In 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 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 3.61% 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, is being amortized on a straight-line basis to interest expense through November 15, 2009, the maturity date of the original cash flow hedges. As of September 30, 2009, after amortization of $4.9 recorded in the first three quarters of 2009, the remaining unamortized AOCL associated with the original cash flow hedges was $1.2 million.

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 Stockholders' Equity Deficit. The remaining gain or loss, if any, is recognized currently in earnings.

A tabular presentation of the fair value of derivative instruments as of September 30, 2009 is as follows (amounts in thousands):

	Balance Sheet Location	Fair Value – Asset (Liability) Derivatives
Derivatives designated as hedging instruments under ASC Topic 815		
Interest rate contracts	Other non-current liabilities	$(9,929)

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 September 30, 2009

Derivatives in ASC Topic 815 – Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion)	Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain (Loss) Recognized in OCI During the Term of the Hedge Relationship Reclassified into Income (Effective Portion)	Location of Gain (Loss) Recognized in OCI During the Term of the Hedge Relationship Reclassified into Income (Effective Portion)
Interest rate contracts	($ 1,856)	Interest income/ (expense)	* ($1,836)	Interest income/(expense)

For the Nine Months Ended September 30, 2009

Derivatives in ASC Topic 815 – Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion)	Location of Loss Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain (Loss) Recognized in OCI During the Term of the Hedge Relationship Reclassified into Income (Effective Portion)	Location of Gain (Loss) Recognized in OCI During the Term of the Hedge Relationship Reclassified into Income (Effective Portion)
Interest rate contracts	($ 2,341)	Interest income/ (expense)	* ($4,895)	Interest income/(expense)

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

28

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

Our business strategy with regard to operations will focus on the following:

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

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

Sources and Uses of Cash

Cash provided by operating activities was $50.3 million for the nine months ended September 30, 2009 and $22.3 million for the nine months ended September 30, 2008.

Cash used in investing activities was $26.4 million and $50.2 million for the nine months ended September 30, 2009 and 2008, respectively. For the nine months ended September 30, 2009, we purchased property and equipment for approximately $22.8 million and acquired the assets and businesses of additional imaging facilities for approximately $3.3 million, which is net of proceeds generated from the immediate sale of one of these acquired centers (see Note 3). We also purchased additional equity interests in joint ventures totaling $315,000.

Cash used by financing activities was $22.7 million for the nine months ended September 30, 2009 compared to cash provided by financing activities of $27.8 million for the nine months ended September 30, 2008. The cash used by financing activities for the nine months ended September 30, 2009 was related to payments we made toward our term loans, capital leases and line of credit balances, as well as $3.2 million of cash payments, net of cash receipts, related to our modified cash flow hedges.

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. As noted in "Liquidity and Capital Resources" above, we have entered into interest rate swaps to fix the interest rate on approximately $270 million of our credit facility. The remaining portion of the credit facility bears interest at rates that float as market conditions change, and as such, is subject to market risk.

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 September 30, 2009. 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, 2008, which could materially affect

our business, financial condition and results of operations. The risks described in our Form 10-K 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.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

ITEM 3. Defaults Upon Senior Securities

None

ITEM 4. Submission of Matters to a Vote of Security Holders

None

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.

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: November 9, 2009	By	/s/ Howard G. Berger, M.D. Howard G. Berger, M.D., President and Chief Executive Officer (Principal Executive Officer)
Date: November 9, 2009	By	/s/ Mark D. Stolper Mark D. Stolper, Chief Financial Officer (Principal Financial and Accounting Officer)

INDEX TO EXHIBITS

Exhibit Number	Description
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