

IDE IMAGING PARTNERS INC  
Form S-4  
August 30, 2010

As filed with the Securities and Exchange Commission on August 27, 2010

**Registration No. 333-\_\_\_\_\_**

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

**FORM S-4  
REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933**

**RadNet, Inc.**

(Exact Name of Registrant as Specified in its Charter)

**SEE TABLE OF ADDITIONAL REGISTRANTS**

Delaware  
(State or Other Jurisdiction of  
Incorporation or Organization)

8071  
(Primary Standard Industrial  
Classification Code Number)

13-3326724  
(I.R.S. Employer  
Identification No.)

**1510 Cotner Avenue  
Los Angeles, California 90025  
(310) 478-7808**

*(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)*

**Mark D. Stolper**  
**Executive Vice President and Chief Financial Officer**  
**Jeffrey L. Linden, Esq.**  
**Executive Vice President and General Counsel**  
**1510 Cotner Avenue**  
**Los Angeles, California 90025**  
**Tel: (310) 478-7808**

*(Name, Address, including zip code, and telephone number, including area code, of agent for service)*

*With copies to:*

Linda G. Michaelson, Esq.  
Sheppard, Mullin, Richter & Hampton LLP  
1901 Avenue of the Stars, Suite 1600  
Los Angeles, California 90067  
Tel: (310) 228-3700

**Louis P.A. Lehot, Esq.**  
**Sheppard, Mullin, Richter & Hampton LLP**  
**990 Marsh Road**  
**Menlo Park, California 94025**  
**Tel: (650) 815-2600**

**Approximate date of commencement of proposed sale to the public:** As soon as practicable after this Registration Statement is declared effective.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

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.

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

If applicable, place an X in the box to designate the appropriate rule provision relied upon in conducting this transaction:

## CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Maximum Offering Price Per Note	Maximum Aggregate Offering Price <sup>(1)</sup>	Amount of Registration Fee
10 3/8% Senior Notes due 2018	\$200,000,000	100 %	\$200,000,000	\$ 14,260
Guarantees <sup>(2)</sup> of 10 3/8% Senior Notes due 2018	\$200,000,000	100 %	\$200,000,000	(3)

(1) Estimated solely for the purpose of calculating the registration fee under Rule 457(f) of the Securities Act of 1933, as amended (the Securities Act ).

(2) See inside facing page for additional registrant guarantors.

(3) Pursuant to Rule 457(n) under the Securities Act, no separate filing fee is required for the guarantees.

**The Registrants hereby amend this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrants shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.**

TABLE OF CONTENTS**TABLE OF ADDITIONAL REGISTRANTS****Additional Registrant (as Issuer of 10 3/8% Senior Notes due 2018)**

Exact Name of Registrant Issuer, as Specified in its Charter	State or Other Jurisdiction of Incorporation or Organization	I.R.S. Employer Identification Number	Address, Including Zip Code and Telephone Number, Including Area Code of Additional Registrant's Principal Executive Offices
Radnet Management, Inc.	California	95-4377348	1510 Cotner Ave. Los Angeles, CA 90025 (310) 478-7808

**TABLE OF ADDITIONAL REGISTRANT GUARANTORS****Additional Registrants (as Guarantors of 10 3/8% Senior Notes due 2018)**

Exact Name of Registrant Guarantor, as Specified in its Charter	State or Other Jurisdiction of Incorporation or Organization	I.R.S. Employer Identification Number	Address, Including Zip Code and Telephone Number, Including Area Code of Registrant Guarantor's Principal Executive Offices
Radnet Managed Imaging Services, Inc.	California	95-4557772	1510 Cotner Ave. Los Angeles, CA 90025 (310) 478-7808
Radnet Management I, Inc.	California	95-4819129	1510 Cotner Ave. Los Angeles, CA 90025 (310) 478-7808
Radnet Management II, Inc.	California	77-0573991	1510 Cotner Ave. Los Angeles, CA 90025 (310) 478-7808
Radnet Sub, Inc.	California	95-4498003	1510 Cotner Ave. Los Angeles, CA 90025 (310) 478-7808
FRI II, Inc.	California	32-0220089	1510 Cotner Ave. Los Angeles, CA 90025 (310) 478-7808
FRI, Inc.	California	51-0610479	1510 Cotner Ave. Los Angeles, CA 90025 (310) 478-7808

Edgar Filing: IDE IMAGING PARTNERS INC - Form S-4

Pacific Imaging Partners, Inc.	California	94-2509195	1510 Cotner Ave. Los Angeles, CA 90025 (310) 478-7808
Rolling Oaks Imaging Corporation	California	95-4651287	1510 Cotner Ave. Los Angeles, CA 90025 (310) 478-7808
Rolling Oaks Radiology, Inc.	California	26-1790997	1510 Cotner Ave. Los Angeles, CA 90025 (310) 478-7808
SoCal MR Site Management, Inc.	California	95-4803059	1510 Cotner Ave. Los Angeles, CA 90025 (310) 478-7808
Valley Imaging Partners, Inc.	California	94-1704799	1510 Cotner Ave. Los Angeles, CA 90025 (310) 478-7808

---

TABLE OF CONTENTS

Exact Name of Registrant Guarantor, as Specified in its Charter	State or Other Jurisdiction of Incorporation or Organization	I.R.S. Employer Identification Number	Address, Including Zip Code and Telephone Number, Including Area Code of Registrant Guarantor's Principal Executive Offices
Advanced Imaging Partners, Inc.	Delaware	52-2055550	1510 Cotner Ave. Los Angeles, CA 90025 (310) 478-7808
Community Imaging Partners, Inc.	Delaware	52-2076917	1510 Cotner Ave. Los Angeles, CA 90025 (310) 478-7808
Delaware Imaging Partners, Inc.	Delaware	38-3771454	1510 Cotner Ave. Los Angeles, CA 90025 (310) 478-7808
Diagnostic Imaging Services, Inc.	Delaware	33-0443404	1510 Cotner Ave. Los Angeles, CA 90025 (310) 478-7808
Ide Imaging Partners, Inc.	Delaware	16-1536314	1510 Cotner Ave. Los Angeles, CA 90025 (310) 478-7808
Mid Rockland Imaging Partners, Inc.	Delaware	13-3967044	1510 Cotner Ave. Los Angeles, CA 90025 (310) 478-7808
Radiologix, Inc.	Delaware	75-2648089	1510 Cotner Ave. Los Angeles, CA 90025 (310) 478-7808
Radiology and Nuclear Medicine Imaging Partners, Inc.	Delaware	74-2851827	1510 Cotner Ave. Los Angeles, CA 90025 (310) 478-7808
Treasure Coast Imaging Partners, Inc.	Delaware	65-0825197	1510 Cotner Ave. Los Angeles, CA 90025 (310) 478-7808
Questar Imaging, Inc.	Florida	59-3315849	1510 Cotner Ave. Los Angeles, CA 90025 (310) 478-7808
Questar Los Alamitos, Inc.	Florida	59-3578129	1510 Cotner Ave. Los Angeles, CA 90025 (310) 478-7808
Questar Victorville, Inc.	Florida	59-3578129	1510 Cotner Ave. Los Angeles, CA 90025 (310) 478-7808
New Jersey Imaging Partners, Inc.	New Jersey	36-4654355	1510 Cotner Ave. Los Angeles, CA 90025 (310) 478-7808
Health Diagnostics of New Jersey, LLC	New Jersey	22-2262855	1510 Cotner Ave. Los Angeles, CA 90025 (310) 478-7808

Edgar Filing: IDE IMAGING PARTNERS INC - Form S-4

Advanced Radiology, LLC      Maryland      52-1891450      1510 Cotner Ave.  
Los Angeles, CA 90025  
(310) 478-7808

---

TABLE OF CONTENTS

The information in this preliminary prospectus is not complete and may be changed. We may not offer or sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities, nor a solicitation of an offer to buy these securities, in any state where the offer, solicitation or sale is not permitted.

## **SUBJECT TO COMPLETION, DATED AUGUST 27, 2010**

### **PRELIMINARY PROSPECTUS**

## **Radnet Management, Inc.**

### **Exchange Offer for 10 3/8% Senior Notes due 2018**

**We are offering to exchange up to \$200,000,000 of our new 10 3/8% Senior Notes due 2018, which are wholly and unconditionally guaranteed by RadNet, Inc., the parent company of Radnet Management, Inc. and certain subsidiaries of Radnet Management, Inc. (the exchange notes), in an exchange registered under the Securities Act of 1933, as amended (the Securities Act), for any and all of our outstanding 10 3/8% Senior Notes due 2018, which are wholly and unconditionally guaranteed by RadNet, Inc. and certain subsidiaries of Radnet Management, Inc. (the outstanding notes). We are offering to exchange the exchange notes for the outstanding notes to satisfy our obligations contained in the registration rights agreement that we entered into when the outstanding notes were sold pursuant to Rule 144A and Regulation S under the Securities Act on April 6, 2010.**

## **The Exchange Offer**

We will exchange all outstanding notes that are validly tendered and not validly withdrawn for an equal principal amount of exchange notes that are freely tradable.

You may withdraw tenders of outstanding notes at any time prior to the expiration date of the exchange offer. The exchange offer expires at 5:00 p.m., New York City time, on \_\_\_\_\_, 2010 unless extended. We do not currently intend to extend the expiration date.

The exchange of the outstanding notes for exchange notes in the exchange offer will not be a taxable event for U.S. federal income tax purposes.

We will not receive any proceeds from the exchange offer.

## **The Exchange Notes**

The terms of the exchange notes to be issued in the exchange offer are substantially identical to the outstanding notes, except that the exchange notes will be freely tradable.

## **Results of the Exchange Offer**

The exchange notes may be sold in the over-the-counter market, in negotiated transactions or through a combination of such methods. We do not plan to list the notes on a national securities exchange or elsewhere.

All untendered outstanding notes will continue to be subject to the restrictions on transfer set forth in the outstanding notes and in the related indenture. In general, the outstanding notes may not be offered or sold, unless registered under the Securities Act, except pursuant to an exemption from, or in a transaction not subject to, the Securities Act and



applicable state securities laws. Other than in connection with the exchange offer, we do not currently anticipate that we will register the outstanding notes under the Securities Act.

**See Risk Factors beginning on page 15 for a discussion of certain risks that you should consider before participating in the exchange offer.**

Each broker-dealer that receives exchange notes for its own account pursuant to the exchange offer must acknowledge that it will deliver a prospectus in connection with any resale of such exchange notes. The letter of transmittal states that by so acknowledging and delivering a prospectus, a broker-dealer will not be deemed to admit that it is an underwriter within the meaning of the Securities Act. This prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of exchange notes received in exchange for outstanding notes where such outstanding notes were acquired by such broker-dealer as a result of market-making activities or other trading activities. In addition, all dealers effecting transactions in the exchange notes may be required to deliver a prospectus. We have agreed that, for a period of 180 days after the date of this prospectus, we will make this prospectus available to any broker-dealer for use in connection with such resale. See Plan of Distribution.

If you are our affiliate or are engaged in, or intend to engage in, or have an agreement or understanding to participate in, a distribution of the exchange notes, you cannot rely on the applicable interpretations of the Securities and Exchange Commission and you must comply with the registration requirements of the Securities Act in connection with any resale transaction.

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the exchange notes to be distributed in the exchange offer or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.**

The date of this prospectus is \_\_\_\_\_, 2010.

---

TABLE OF CONTENTS**RadNet, Inc.****TABLE OF CONTENTS**

	Page
<u>Prospectus Summary</u>	<u>1</u>
<u>Risk Factors</u>	<u>15</u>
<u>Forward-Looking Statements</u>	<u>31</u>
<u>The Refinancing Transactions</u>	<u>32</u>
<u>Use of Proceeds</u>	<u>33</u>
<u>Capitalization</u>	<u>34</u>
<u>Selected Historical Consolidated Financial Data</u>	<u>35</u>
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>37</u>
<u>Business</u>	<u>64</u>
<u>Management</u>	<u>86</u>
<u>Executive Compensation</u>	<u>90</u>
<u>Security Ownership of Certain Beneficial Owners and Management</u>	<u>100</u>
<u>Certain Relationships and Related Party Transactions</u>	<u>102</u>
<u>Description of Other Indebtedness</u>	<u>103</u>
<u>The Exchange Offer</u>	<u>105</u>
<u>Description of Notes</u>	<u>116</u>
<u>Material U.S. Federal Income Tax Consequences</u>	<u>155</u>
<u>Plan of Distribution</u>	<u>160</u>
<u>Legal Matters</u>	<u>161</u>
<u>Experts</u>	<u>161</u>
<u>Where You Can Find More Information</u>	<u>161</u>
<u>Index to Consolidated Financial Statements</u>	<u>F-1</u>

**You should rely only on the information contained in this prospectus or in any additional written communication prepared by or authorized by us. We have not authorized anyone to provide you with any information or represent anything about us, our financial results or the exchange offer that is not contained in this prospectus or in any additional written communication prepared by or on behalf of us. If given or made, any such other information or representation should not be relied upon as having been authorized by us. We are not making an offer to exchange the outstanding notes in any jurisdiction where the offer or sale is not permitted. You should assume that the information in this prospectus or in any additional written communication prepared by or on behalf of us is accurate only as of the date on its cover page.**

TABLE OF CONTENTS

## PROSPECTUS SUMMARY

*This summary highlights information about our business from this prospectus. This summary does not contain all of the information that you should consider before investing in the notes. You should read the entire prospectus, including the financial data and related notes, before making an investment decision. Unless the context otherwise requires, references in this prospectus to we, our, us, the company and Radnet refer to Radnet Management, Inc. its parent company, RadNet, Inc. and its wholly owned subsidiaries and its predecessors. Additionally, unless the context otherwise requires, references to the Issuer in this prospectus refer to Radnet Management, Inc. However, in the Prospectus Summary Summary of the Terms of the Exchange Offer, Prospectus Summary The Exchange Notes, Description of Notes, and The Exchange Offer sections of this prospectus, references to we, us, and our and similar expressions are to Radnet Management, Inc. or Radnet Management.*

### Our Company

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

We seek to develop leading positions in regional markets in order to leverage operational efficiencies. Our scale and density within selected geographies provides close, long-term relationships with key payors, radiology groups and referring physicians. Each of our facility managers is responsible for managing relationships with local physicians and payors, meeting our standards of patient service and maintaining profitability. We provide corporate training programs, standardized policies and procedures and sharing of best practices among the physicians in our regional networks.

We derive substantially all of our revenue, directly or indirectly, from fees charged for the diagnostic imaging services performed at our facilities. For the year ended December 31, 2009, we performed 3,174,006 diagnostic imaging procedures and generated net revenue from continuing operations of \$524 million.

TABLE OF CONTENTS

## The Refinancing Transactions

On April 6, 2010, Radnet Management issued and sold \$200,000,000 in 10 3/8% senior notes due 2018, which are the subject of the exchange offer described in this prospectus, to the initial purchasers, Deutsche Bank Securities Inc., Barclays Capital Inc., RBC Capital Markets Corporation and Jefferies & Company Inc., who resold the notes to qualified institutional buyers pursuant to Rule 144A under the Securities Act, and to non-U.S. persons in offshore transactions pursuant to Regulation S under the Securities Act. All payments of the 10 3/8% senior notes due 2018, including principal and interest, are guaranteed jointly and severally on a senior unsecured basis by RadNet, Inc. and all of Radnet Management's current and future domestic wholly owned restricted subsidiaries. The 10 3/8% notes due 2018 were issued under an indenture, dated April 6, 2010, by and among Radnet Management, as issuer, RadNet, Inc., as parent guarantor, the subsidiary guarantors listed on the Table of Additional Registrant Guarantors, and U.S. Bank National Association, as trustee, in a private placement that was not subject to the registration requirements of the Securities Act. Please refer to the section entitled Description of Notes for additional information on the material provisions of the indenture and the notes.

In connection with the sale of the 10 3/8% senior notes due 2018, Radnet Management, RadNet, Inc. and the guarantors listed on the Table of Additional Registrant Guarantors entered into a registration rights agreement, dated as of April 6, 2010, with Deutsche Bank Securities Inc. and Barclays Capital Inc., as the representatives of the initial purchasers of the Notes. Pursuant to this registration rights agreement, Radnet Management, RadNet, Inc. and the other subsidiary guarantors listed on the Table of Additional Registrant Guarantors agreed to file a registration statement in connection with, and to consummate an exchange offer enabling holders of the outstanding 10 3/8% senior notes due 2018 to exchange the outstanding notes for publicly registered exchange notes with nearly identical terms.

On April 6, 2010, Radnet Management entered into a new Credit and Guaranty Agreement with Barclays Capital, Deutsche Bank Securities Inc., GE Capital Markets, Inc. and Royal Bank of Canada, as joint bookrunners and joint lead arrangers, Barclays Bank PLC, as administrative agent and collateral agent, and certain other lenders, whereby Radnet Management obtained \$385,000,000 in senior secured first-lien bank financing, consisting of (i) a \$285,000,000, six-year term loan facility and (ii) a \$100,000,000, five-year revolving credit facility, including a swing line subfacility and a letter of credit subfacility (collectively, the New Credit Facilities). Radnet Management's obligations under this Credit and Guaranty Agreement are unconditionally guaranteed by RadNet, Inc., all of Radnet Management's current and future wholly owned domestic subsidiaries as well as certain affiliates, including Beverly Radiology Medical Group III and its equity holders (Beverly Radiology Medical Group, Inc., BreastLink Medical Group, Inc. and ProNet Imaging Medical Group, Inc.). See Selected Historical Consolidated Financial Data, Certain Relationships and Related Party Transactions and Description of Other Indebtedness. These New Credit Facilities created by the Credit and Guaranty Agreement are secured by a perfected first-priority security interest in all of Radnet Management's and the guarantors' tangible and intangible assets, including, but not limited to, pledges of equity interests of Radnet Management and all of our current and future wholly owned domestic subsidiaries.

In connection with the issuance of the outstanding notes and entering into the Credit and Guaranty Agreement, Radnet Management used the net proceeds from the issuance of the outstanding notes and the New Credit Facilities created by the Credit and Guaranty Agreement to repay in full its existing first lien term loan for \$242.6 million in aggregate principal amount outstanding, which would have matured on November 15, 2012, and its second lien term loan for \$170.0 million in aggregate principal amount outstanding, which would have matured on November 15, 2013.

The initial issuance of the outstanding notes, the execution of the Credit and Guaranty Agreement, the incurrence of the borrowings thereunder and the application of the net proceeds therefrom to repay and retire a portion of Radnet

Management's existing indebtedness, including repayment of the then-existing credit facilities, are collectively referred to in this prospectus as the Refinancing Transactions. For a more complete description of the Refinancing Transactions, see Description of Other Indebtedness and Description of Notes.

2

---

TABLE OF CONTENTS

## Corporate Information

RadNet, Inc. is incorporated in Delaware. Radnet Management, Inc. is incorporated in California. Our subsidiary guarantors Advanced Imaging Partners, Inc., Community Imaging Partners, Inc., Delaware Imaging Partners, Inc., Diagnostic Imaging Services, Inc., Ide Imaging Partners, Inc., Mid Rockland Imaging Partners, Inc., Radiologix, Inc., Radiology and Nuclear Medicine Imaging Partners, Inc. and Treasure Coast Imaging Partners, Inc. are incorporated in Delaware, Radnet Managed Imaging Services, Inc., Radnet Management I, Inc., Radnet Management II, Inc., Radnet Sub, Inc., FRI II, Inc., FRI, Inc., Pacific Imaging Partners, Inc., Rolling Oaks Imaging Corporation, Rolling Oaks Radiology, Inc., SoCal MR Site Management, Inc. and Valley Imaging Partners, Inc. are incorporated in California, Questar Imaging, Inc., Questar Los Alamitos, Inc. and Questar Victorville, Inc. are incorporated in Florida, New Jersey Imaging Partners, Inc. and Health Diagnostics of New Jersey, LLC are incorporated and formed in New Jersey and Advanced Radiology, LLC was formed in Maryland. Our principal executive offices and headquarters are located at 1510 Cotner Avenue, Los Angeles, California 90025 and our telephone number at that address is (310) 478-7808. Our corporate website is *www.radnet.com*. Information contained on our website or that can be accessed through our website is not incorporated by reference in this prospectus and does not constitute a part of this offering.

## Market, Ranking and Industry Data

Unless otherwise indicated, information contained in this prospectus concerning the diagnostic imaging services industry or market refers to the fixed-site outpatient diagnostic imaging services sector within the domestic diagnostic imaging services industry. Our general expectations concerning these industries and their segments and our market position and market share within these industries and their segments are derived from data from various third-party sources. In addition, this prospectus presents similar information based on management estimates. Such estimates are derived from third-party sources as well as data from our internal research and on assumptions made by us, based on such data and our knowledge of the diagnostic imaging services industry, which we believe to be reasonable.

Although we are not aware of any misstatements regarding any industry or similar data presented herein, such data involves risks and uncertainties and is subject to change based on various factors, including those described in Risk Factors.

TABLE OF CONTENTS

## The Exchange Offer

*In this prospectus, the term "outstanding notes" refers to the 10 3/8% senior notes due 2018. The term "exchange notes" refers to the 10 3/8% senior notes due 2018, as registered under the Securities Act. The term "notes" refers collectively to the outstanding notes and the exchange notes. On April 6, 2010, Radnet Management, Inc. issued \$200,000,000 aggregate principal amount of 10 3/8% senior notes due 2018 in a private placement.*

### General

In connection with the private placement, we entered into a registration rights agreement with the initial purchasers in which we agreed, among other things, to deliver this prospectus to you and to obtain the effectiveness of the exchange offer registration statement within 360 days after the date of original issuance of the outstanding notes. You are entitled to exchange in the exchange offer your outstanding notes for exchange notes, which are identical in all material respects to the outstanding notes except:

the exchange notes have been registered under the Securities Act;

the exchange notes are not entitled to any registration rights that are applicable to the outstanding notes under the registration rights agreement; and

the liquidated damages provisions of the registration rights agreement are no longer applicable.

### The Exchange Offer

We are offering to exchange \$200,000,000 aggregate principal amount of 10 3/8% senior notes due 2018, which have been registered under the Securities Act, for any and all of our outstanding 10 3/8% senior notes due 2018. Outstanding notes may be exchanged only in denominations of \$2,000 and in integral multiples of \$1,000 in excess thereof.

Subject to the satisfaction or waiver of specified conditions, we will exchange the exchange notes for all outstanding notes that are validly tendered and not validly withdrawn prior to the expiration of the exchange offer. We will cause the exchange to be effected promptly after the expiration of the exchange offer.

### Resale

Based on an interpretation by the staff of the Securities and Exchange Commission (the "SEC") set forth in no-action letters issued to third parties, we believe that the exchange notes issued pursuant to the exchange offer in exchange for outstanding notes may be offered for resale, resold and otherwise transferred by you (unless you are our "affiliate" within the meaning of Rule 405 under the Securities Act) without compliance with the registration and prospectus delivery provisions of the Securities Act, provided that:

you are acquiring the exchange notes in the ordinary course of your business; and

TABLE OF CONTENTS

you have not engaged in, do not intend to engage in and have no arrangement or understanding with any person to participate in a distribution of the exchange notes.

If you are a broker-dealer and receive exchange notes for your own account in exchange for outstanding notes that you acquired as a result of market-making activities or other trading activities, you must acknowledge that you will deliver this prospectus in connection with any resale of the exchange notes. See Plan of Distribution.

Any holder of outstanding notes who:

is our affiliate;

does not acquire exchange notes in the ordinary course of its business; or

tenders its outstanding notes in the exchange offer with the intention to participate, or for the purpose of participating, in a distribution of exchange notes cannot rely on the position of the staff of the SEC enunciated in no-action letters addressed to Morgan Stanley & Co. Incorporated (available June 5, 1991) and Exxon Capital Holdings Corporation (available May 13, 1988), as interpreted in the SEC's no-action letter addressed to Shearman & Sterling (available July 2, 1993), or similar no-action letters and, in the absence of an exemption therefrom, must comply with the registration and prospectus delivery requirements of the Securities Act in connection with any resale of the exchange notes.

**Expiration Date**

The exchange offer will expire at 5:00 p.m., New York City time, on \_\_\_\_\_, 2010, unless extended by us. We do not currently intend to extend the expiration of the exchange offer.

**Withdrawal**

You may withdraw the tender of your outstanding notes at any time prior to the expiration of the exchange offer. We will return to you any of your outstanding notes that are not accepted for any reason for exchange, without expense to you, promptly after the expiration or termination of the exchange offer.

**Conditions to the Exchange Offer**

The exchange offer is subject to customary conditions, which we may waive. See The Exchange Offer Conditions to the Exchange Offer.

**Procedures for Tendering Outstanding Notes**

If you wish to participate in the exchange offer, you must complete, sign and date the accompanying letter of transmittal, or a facsimile of such letter of transmittal, according to the instructions contained in this prospectus and the letter of transmittal. You must then mail or otherwise deliver the letter of transmittal, or a facsimile of such letter of transmittal, together with the outstanding



TABLE OF CONTENTS

notes and any other required documents, to the exchange agent at the address set forth on the cover page of the letter of transmittal.

If you hold outstanding notes through The Depository Trust Company (DTC) and wish to participate in the exchange offer, you must comply with the Automated Tender Offer Program procedures of DTC by which you will agree to be bound by the letter of transmittal.

If you are a beneficial owner whose outstanding notes are registered in the name of a broker, dealer, commercial bank, trust company or other nominee and you wish to tender your outstanding notes, you should promptly contact the registered holder and instruct the registered holder to tender on your behalf. If you wish to tender the outstanding notes yourself, you must, prior to completing and executing the letter of transmittal and delivering your outstanding notes, either have the outstanding notes registered in your name or obtain a properly completed bond power from the registered holder. The transfer of registered ownership may take considerable time and may not be able to be completed prior to the expiration date.

By signing, or agreeing to be bound by, the letter of transmittal, you will represent to us that, among other things:

you are not our affiliate within the meaning of Rule 405 under the Securities Act;

you do not have an arrangement or understanding with any person or entity to participate in the distribution of the exchange notes;

you are not engaged in, and do not intend to engage in, a distribution of the exchange notes;

you are acquiring the exchange notes in the ordinary course of your business; and

if you are a broker-dealer that will receive exchange notes for your own account in exchange for outstanding notes that were acquired as a result of market-making activities, that you will deliver a prospectus, as required by law, in connection with any resale of such exchange notes.

Special Procedures for Beneficial Owners

If you are a beneficial owner of outstanding notes that are registered in the name of a broker, dealer, commercial bank, trust company or other nominee, and you wish to tender those outstanding notes in the exchange offer, you should contact the registered holder promptly and instruct the registered holder to tender those outstanding notes on your behalf. If you wish to tender on your own behalf, you must, prior to completing and executing the letter of transmittal and delivering your outstanding notes, either make appropriate arrangements to register ownership of

TABLE OF CONTENTS

the outstanding notes in your name or obtain a properly completed bond power from the registered holder. The transfer of registered ownership may take considerable time and may not be able to be completed prior to the expiration date.

**Guaranteed Delivery Procedures**

If you wish to tender your outstanding notes and your outstanding notes are not immediately available or you cannot deliver your outstanding notes, the letter of transmittal or any other required documents, or you cannot comply with the procedures under DTC's Automated Tender Offer Program for transfer of book-entry interests, prior to the expiration date, you must tender your outstanding notes according to the guaranteed delivery procedures set forth in this prospectus under "The Exchange Offer - Guaranteed Delivery Procedures."

**Effect on Holders of Outstanding Notes**

As a result of the making of, and upon acceptance for exchange of all validly tendered outstanding notes pursuant to the terms of the exchange offer, we will have fulfilled a covenant under the registration rights agreement. Accordingly, there will be no increase in the interest rate on the outstanding notes under the circumstances described in the registration rights agreement. If you do not tender your outstanding notes in the exchange offer, you will continue to be entitled to all the rights and limitations applicable to the outstanding notes as set forth in the indenture, except we will not have any further obligation to you to provide for the exchange and registration of the outstanding notes and related guarantees under the registration rights agreement. To the extent that outstanding notes are tendered and accepted in the exchange offer, the trading market for outstanding notes could be adversely affected.

**Consequences of Failure to Exchange**

All untendered outstanding notes will continue to be subject to the restrictions on transfer set forth in the outstanding notes and in the indenture. In general, the outstanding notes may not be offered or sold, unless in a transaction registered under the Securities Act, except pursuant to an exemption from, or in a transaction not subject to, the Securities Act and applicable state securities laws. Other than in connection with the exchange offer, we do not intend to register exchanges of outstanding notes under the Securities Act, except as otherwise required by the registration rights agreement.

**United States Federal Income Tax Consequences of the Exchange Offer**

The exchange of outstanding notes in the exchange offer will not be a taxable event for U.S. federal income tax purposes. See "Material U.S. Federal Income Tax Consequences - Exchange Offer."

TABLE OF CONTENTS

Use of Proceeds

We will not receive any cash proceeds from the issuance of exchange notes in the exchange offer. See Use of Proceeds.

Exchange Agent

U.S. Bank National Association is the exchange agent for the exchange offer. The addresses and telephone numbers of the exchange agent are set forth in the section captioned The Exchange Offer Exchange Agent.

8

---

TABLE OF CONTENTS

## The Exchange Notes

*The summary below describes the principal terms of the exchange notes. Certain of the terms and conditions described below are subject to important limitations and exceptions. The Description of Notes section of this prospectus contains more detailed descriptions of the terms and conditions of the outstanding notes and the exchange notes. The exchange notes will have terms identical in all material respects to the outstanding notes, except that the exchange notes will not contain terms with respect to transfer restrictions, registration rights and liquidated damages for failure to observe certain obligations in the registration rights agreement. The exchange notes will evidence the same debt as the corresponding outstanding notes. The exchange notes will be issued under and entitled to the benefits of the same indenture under which the outstanding notes were issued, and the exchange notes and the outstanding notes will constitute a single class for all purposes under the indenture.*

Issuer

Radnet Management, Inc.

Securities Offered

\$200,000,000 aggregate principal amount of 10 3/8% senior notes due 2018 and the related guarantees.

Maturity

The exchange notes will mature on April 1, 2018.

Interest Rate

The exchange notes will bear interest at a rate of 10 3/8% per annum.

Interest Payment Dates

The interest on the exchange notes is payable in arrears on April 1 and October 1 of each year, beginning on October 1, 2010. Interest will accrue from the most recent date to which interest has been paid or, if no interest has been paid, from the date of issuance.

Guarantees

Each of our current and future wholly owned domestic restricted subsidiaries and our direct parent company, RadNet, Inc., will jointly and severally guarantee the exchange notes on a senior unsecured basis.

Ranking

The exchange notes will be our unsecured senior obligations and will:

rank equally in right of payment with any existing and future senior unsecured indebtedness of us and any of the guarantors;

rank senior in right of payment to all existing and future subordinated indebtedness of us and any of the guarantors;

be effectively subordinated in right of payment to any secured indebtedness of us and any of the guarantors (including indebtedness under the New Credit Facilities) to the extent of the value of the assets securing such indebtedness; and

be structurally subordinated in right of payment to all existing and future indebtedness and other liabilities of any of our subsidiaries that is not a guarantor of the notes.



TABLE OF CONTENTS

Similarly, the note guarantees will be unsecured senior obligations of the guarantors and will:

rank equally in right of payment with any existing and future senior unsecured indebtedness of any of the guarantors.

rank senior in right of payment to all existing and future subordinated indebtedness of any of the guarantors;

be effectively subordinated in right of payment to any secured indebtedness of any of the guarantors (including indebtedness under the New Credit Facilities) to the extent of the value of the assets securing such indebtedness; and

be structurally subordinated in right of payment to all existing and future indebtedness and other liabilities of any of our subsidiaries that is not a guarantor of the notes.

After giving effect to the Refinancing Transactions and the application of the net proceeds therefrom, as of June 30, 2010, we had \$510.4 million in aggregate principal amount of outstanding indebtedness, \$312.0 million of which constituted senior secured indebtedness that is effectively senior to the notes to the extent of the value of the collateral securing such debt. As of June 30, 2010, our non-guarantor subsidiaries had assets of \$45.1 million and liabilities of \$35.6 million (including trade payables).

**Optional Redemption**

We may redeem the notes, in whole or in part, at any time on or after April 1, 2014, at the redemption prices specified under Description of Notes Optional Redemption.

Prior to April 1, 2013, we may redeem up to 35% of aggregate principal amount of the notes issued under the indenture from the net proceeds of one or more equity offerings at a redemption price equal to 110.375% of the notes redeemed, plus accrued and unpaid interest, if any.

We are also permitted to redeem the notes prior to April 1, 2014, in whole or in part, at a redemption price equal to 100% of the principal amount redeemed, plus a make-whole premium and accrued and unpaid interest, if any.

**Change of Control Offer**

If a change of control occurs, we must give holders of the notes the opportunity to sell us their notes at 101% of their face amount, plus accrued interest.

10

---

TABLE OF CONTENTS

We might not be able to pay you the required price for notes you present to us at the time of a change of control, because:

we might not have enough funds at that time; or

the terms of the New Credit Facilities or any future indebtedness may prevent us from making the change of control tender.

See Risk Factors Risks Related to the Exchange Offer, the Notes and Our Indebtedness We may not be able to repurchase notes upon a change of control, which would be an event of default under the indenture.

See Description of Notes Repurchase at the Option of Holders Change of Control.

Certain Indenture Provisions

The indenture governing the exchange notes will contain covenants limiting, among other things, the ability of RadNet, Inc. and its restricted subsidiaries, including the Issuer, to:

pay dividends or make certain other restricted payments or investments;

incur additional indebtedness and issue preferred stock;

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

sell certain assets or merge with or into other companies or otherwise dispose of all or substantially all of our assets;

enter into certain transactions with affiliates;

create restrictions on dividends or other payments by our restricted subsidiaries; and

create guarantees of indebtedness by restricted subsidiaries.

However, these limitations will be subject to a number of important qualifications and exceptions.

Book-Entry

The exchange notes will be issued in book-entry form and will be represented by global certificates deposited with, or on behalf of, DTC and registered in the name of Cede & Co., DTC's nominee. Beneficial interests in the exchange notes will be shown on, and transfers will be effected only through, records maintained by DTC or its nominee; and these interests may not be exchanged for certificated notes, except in limited circumstances. See The Exchange Offer Book-Entry Delivery Procedures.

TABLE OF CONTENTS

No Public Market

The exchange notes will be freely transferable but will be a new issue of securities. There is no established trading market for the exchange notes and the exchange notes will not be listed on any national securities exchange or elsewhere. Accordingly, an active market or liquidity may not develop for the exchange notes.

## **Risk Factors**

You should carefully consider all of the information included and incorporated by reference in this prospectus. See **Risk Factors** included in this prospectus beginning on page 15. In addition, you should review the information set forth under **Forward-Looking Statements** before deciding to tender your outstanding notes in the exchange offer.

12

---



TABLE OF CONTENTS**Summary Historical Consolidated Financial Data**

The following table sets forth our summary historical consolidated financial information for each of the years ended December 31, 2009, 2008 and 2007 and for the three and six months ended June 30, 2010 and 2009. The summary consolidated statements of operations data set forth below for the years ended December 31, 2009, 2008 and 2007 are derived from our audited consolidated financial statements and notes thereto included elsewhere herein. The statement of operations data and other financial data for the three and six months ended June 30, 2010 and 2009 and the balance sheet data as of June 30, 2010 were derived from our unaudited condensed consolidated financial statements.

This data should be read in conjunction with and is qualified in its entirety by reference to the audited consolidated financial statements and the related notes included elsewhere herein and Management's Discussion and Analysis of Financial Condition and Results of Operations.

The financial data set forth below and discussed in this prospectus are derived from the consolidated financial statements of RadNet, Inc., its subsidiaries and certain affiliates. As described further in Note 1 to the accompanying financial statements included elsewhere herein, as a result of the contractual and operational relationship among Beverly Radiology Medical Group III ( BRMG ), Dr. Berger and us, we are considered to be the primary beneficiary of the operations of BRMG, which we have determined is a variable interest entity based on applicable accounting guidance. Consequently, we are required to include BRMG as a consolidated entity in our consolidated financial statements. This means, for example, that revenue generated by BRMG from the provision of professional medical services to our patients, as well as BRMG's costs of providing those services, are included as net revenue and operating expenses, respectively, in our consolidated statement of operations, whereas the management fee that BRMG pays to us under our management agreement with BRMG is eliminated as a result of the consolidation of our results with those of BRMG. If BRMG were not treated as a consolidated entity in our consolidated financial statements, the presentation of certain items in our income statement, such as net revenue and costs and expenses, would change but our net income would not materially change, because in operation and historically, the annual revenue of BRMG from all sources closely approximates its expenses, including Dr. Berger's compensation, fees payable to us and amounts payable to third parties. BRMG is a guarantor under our New Credit Facilities, but does not guarantee the notes.

	Three Months Ended June 30,		Six Months Ended June 30,		Years Ended December 31,		
	2010	2009	2010	2009	2009	2008	2007
	(unaudited)		(unaudited)		(unaudited)		
	(in thousands)						
Statement of Operations Data:							
Net revenue	\$ 138,951	\$ 131,146	\$ 263,129	\$ 259,149	\$ 524,368	\$ 498,815	\$ 423,576
Operating expenses	106,205	99,716	204,844	196,729	397,753	384,297	330,550
Depreciation and amortization	13,876	13,212	27,151	26,386	53,800	53,548	45,281
Provision for bad debts	8,468	8,369	16,145	16,343	32,704	30,832	27,467
Loss on sale of equipment, net	51	277	155	303	523	516	72
	9,916	9,232	14,267	19,031	38,857	29,287	19,272

Income from operations							
Interest expense <sup>(1)</sup>	12,729	12,578	22,696	26,171	49,193	51,811	44,307
Gain on bargain purchase		(1,387 )		(1,387 )	(1,387 )		
Gain from sale of joint venture interests							(1,868 )
Equity in earnings of joint ventures	1,971	2,453	3,832	5,088	8,456	9,791	5,944
Net loss attributable to RadNet, Inc. common stockholders	(11,756 )	(336 )	(15,867 )	(1,178 )	(2,267 )	(12,836 )	(18,131 )

13

TABLE OF CONTENTS

	As of June 30, 2010 (unaudited) (in thousands)
Balance Sheet Data:	
Cash and cash equivalents	\$ 20,476
Total assets	529,000
Total long-term liabilities	520,813
Total liabilities	617,335
Working capital	31,373
Equity deficit	(88,335 )

14

---

TABLE OF CONTENTS

## **RISK FACTORS**

*You should carefully consider the risk factors set forth below as well as the other information contained in this prospectus before deciding to tender your outstanding notes in the exchange offer. The risks described below and the other information included in this prospectus are not the only risks we face. Additional risks and uncertainties not currently known to us or those we currently view to be immaterial may also materially and adversely affect our business, financial condition or results of operations. Any of the following risks could materially and adversely affect our business, financial condition or results of operations. In any such case, the trading price of the exchange notes could decline or we may not be able to make payments of interest and principal on the exchange notes and you may lose all or part of your original investment.*

### **Risks Relating to the Exchange Offer, the Notes and our Indebtedness**

**If you do not exchange your outstanding notes in the exchange offer, the transfer restrictions currently applicable to your outstanding notes will remain in force and the market price of your outstanding notes could decline.**

If you do not exchange your outstanding notes for exchange notes in the exchange offer, you will continue to be subject to restrictions on transfer of your outstanding notes as set forth in the offering memorandum distributed in connection with the private offering of the outstanding notes. In general, the outstanding notes may not be offered or sold unless they are registered or exempt from registration under the Securities Act and applicable state securities laws. Except as required by the registration rights agreement, we do not intend to register resales of the outstanding notes under the Securities Act. You should refer to Prospectus Summary The Exchange Offer and The Exchange Offer for information about how to tender your outstanding notes.

The tender of outstanding notes under the exchange offer will reduce the outstanding amount of the outstanding notes, which may have an adverse effect upon, and increase the volatility of, the market prices of the outstanding notes due to a reduction in liquidity. In addition, if you do not exchange your outstanding notes in the exchange offer, you will no longer be entitled to exchange your outstanding notes for exchange notes registered under the Securities Act and you will no longer be entitled to have your outstanding notes registered for resale under the Securities Act.

#### **Our substantial debt could adversely affect our financial condition and prevent us from fulfilling our obligations under the notes.**

Our current substantial indebtedness and any future indebtedness we incur could adversely affect our financial condition, which could make it more difficult for us to satisfy our obligations to our creditors. After completion of this offering, we will continue to be highly leveraged. As of June 30, 2010, our total indebtedness was \$510.4 million. Our substantial indebtedness could also:

make it more difficult for us to satisfy our obligations with respect to the notes;  
require us to dedicate a substantial portion of our cash flow from operations to payments on our debt, reducing the availability of our cash flow to fund working capital, capital expenditures, acquisitions and other general corporate purposes;

expose us to the risk of interest rate increases on our variable rate borrowings, including borrowings under our new senior secured credit facilities;

increase our vulnerability to adverse general economic and industry conditions;

limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;

place us at a competitive disadvantage compared to our competitors that have less debt; and

limit our ability to borrow additional funds on terms that are satisfactory to us or at all.

We will be able to incur substantial indebtedness in the future. Although the New Credit Facilities and the indenture governing the notes contain restrictions on the incurrence of additional indebtedness, these

TABLE OF CONTENTS

restrictions are subject to a number of significant qualifications and exceptions, and under certain circumstances, the amount of indebtedness that could be incurred in compliance with these restrictions could be substantial. If new indebtedness is added to our current debt levels, the related risks that we now face could intensify. In addition, the indenture governing the notes does not prevent us from incurring obligations that do not constitute indebtedness under the indenture.

**If we are unable to generate or borrow sufficient cash to make payments on our indebtedness or to refinance our indebtedness on acceptable terms, our financial condition would be materially harmed, our business may fail and you may lose all of your investment.**

Our ability to make scheduled payments on or to refinance our obligations with respect to our debt will depend on our financial and operating performance, which will be affected by general economic, financial, competitive, business and other factors beyond our control. As a result of the recent global market and economic conditions, the cost and availability of credit and equity capital have been severely impacted. We cannot assure you that our business will generate sufficient cash flow from operations or that future borrowings will be available to us in an amount sufficient to enable us to service our debt or to fund our other liquidity needs. If we are unable to meet our debt obligations or fund our other liquidity needs, we may need to restructure or refinance all or a portion of our debt on or before maturity or sell certain of our assets. We cannot assure you that we will be able to restructure or refinance any of our debt on commercially reasonable terms, if at all, which could cause us to default on our debt obligations and impair our liquidity. Any refinancing of our debt could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations.

**We may not be able to finance future needs or adapt our business plan to changes because of restrictions placed on us by our New Credit Facilities, the indenture governing the notes and instruments governing our other indebtedness.**

The indenture governing the notes and our New Credit Facilities contain affirmative and negative covenants which restrict, among other things, our ability to:

- pay dividends or make certain other restricted payments or investments;
- incur additional indebtedness and issue preferred stock;
- create liens (other than permitted liens) securing indebtedness or trade payables unless the notes are secured on an equal and ratable basis with the obligations so secured, and, if such liens secure subordinated indebtedness, the notes are secured by a lien senior to such liens;
- sell certain assets or merge with or into other companies or otherwise dispose of all or substantially all of our assets;
- enter into certain transactions with affiliates;
- create restrictions on dividends or other payments by our restricted subsidiaries; and
- create guarantees of indebtedness by restricted subsidiaries.

All of these restrictions could affect our ability to operate our business and may limit our ability to take advantage of potential business opportunities as they arise. A failure to comply with these covenants and restrictions would permit the relevant creditors to declare all amounts borrowed under the applicable agreement governing such indebtedness, together with accrued interest and fees, to be immediately due and payable. If the indebtedness under the New Credit Facilities or the notes offered hereby is accelerated, we may not have sufficient assets to repay amounts due under the New Credit Facilities, the notes or on other indebtedness then outstanding. If we are not able to refinance our debt, we

If we are unable to generate or borrow sufficient cash to make payments on our indebtedness or to refinance our in

could become subject to bankruptcy proceedings, and you may lose all or a portion of your investment because the claims of certain of our creditors on our assets are prior to the claims of holders of the notes.

TABLE OF CONTENTS

**Your right to receive payments on the notes is effectively junior to those lenders who have a security interest in our assets.**

Our obligations under the notes and our guarantors' obligations under their guarantees of the notes are unsecured, but our obligations under our New Credit Facilities and each guarantor's obligations under their respective guarantees of the New Credit Facilities are secured by a security interest in substantially all of our tangible and intangible assets. If we are declared bankrupt or insolvent, or if we default under our New Credit Facilities, the lenders could declare all of the funds borrowed thereunder, together with accrued interest, immediately due and payable. If we were unable to repay such indebtedness, the lenders could foreclose on the pledged assets to the exclusion of holders of the notes, even if an event of default exists under the indenture under which the notes will be issued at such time. Furthermore, if the lenders foreclose and sell the pledged equity interests in any subsidiary guarantor under the notes, then that guarantor will be released from its guarantee of the notes automatically and immediately upon such sale. In any such event, because the notes are not secured by any of our assets or the equity interests in subsidiary guarantors, it is possible that there would be no assets remaining from which your claims could be satisfied or, if any assets remained, they might be insufficient to satisfy your claims fully.

As of June 30, 2010, we had \$312.0 million of senior secured indebtedness. In addition, upon the occurrence of certain events, we may request an incremental term loan facility or facilities, based upon the satisfaction of a maximum senior secured leverage ratio test and subject to receipt of commitments by existing lenders or other financing institutions and the satisfaction of certain other conditions. The indenture permits the incurrence of substantial additional indebtedness by us and our restricted subsidiaries in the future, including secured indebtedness.

**Claims of noteholders will be structurally subordinate to claims of creditors of all of our non wholly owned subsidiaries and any future foreign subsidiaries because they will not guarantee the notes.**

The notes are not and will not be guaranteed by our non wholly owned subsidiaries or any future foreign subsidiaries. Accordingly, claims of holders of the notes are structurally subordinate to the claims of creditors of these non-guarantor subsidiaries, including trade creditors. All obligations of our non-guarantor subsidiaries will have to be satisfied before any of the assets of such subsidiaries would be available for distribution, upon a liquidation or otherwise, to us or a guarantor of the notes.

Not all of our subsidiaries are guarantors of the notes. As of June 30, 2010, our non-guarantor subsidiaries had assets of \$45.1 million and liabilities of \$35.6 million (including intercompany payables of \$27.8 million).

**We may not be able to repurchase notes upon a change of control, which would be an event of default under the indenture.**

Upon the occurrence of specific kinds of change of control events, we will be required to offer to repurchase all of the outstanding notes. The terms of the notes may not protect you if we undergo a highly leveraged transaction, reorganization, restructuring, merger or similar transaction that may adversely affect you unless the transaction is included in the definition of a change of control. The New Credit Facilities restricts us from repurchasing the notes without the approval of the lenders. In addition, it is possible that we will not have sufficient funds at the time of the change of control to make the required repurchase of notes or that other restrictions in the New Credit Facilities and the notes will not allow these repurchases. Our failure to repurchase the notes would constitute an event of default under the indenture which would in turn result in an event of default under the New Credit Facilities, in which case



the lenders under the New Credit Facilities could cause all indebtedness under the New Credit Facilities to become due and payable.

**Your ability to transfer the exchange notes may be limited by the absence of an active trading market, and there is no assurance that any active trading market will develop for the exchange notes.**

There is no listing for the outstanding notes, and we do not intend to apply for listing of the exchange notes on any national securities exchange or elsewhere. The initial purchasers in the private offering of the outstanding notes have advised us that they intend to make a market in the exchange notes as permitted by applicable laws and regulations; however, the initial purchasers are not obligated to make a market in any of

## TABLE OF CONTENTS

the exchange notes, and they may discontinue their market-making activities at any time without notice. In addition, such market-making activity may be limited during the pendency of the exchange offer. Therefore, an active market for any of the exchange notes may not develop or, if developed, it may not continue.

The liquidity of any market for the notes will depend on a number of factors, including:

- the number of holders of the notes;
- our performance;
- the market for similar securities;
- the interest of securities dealers in making a market in the notes; and
- prevailing interest rates.

Given the risks inherent in an investment in the notes and the restrictions on transfer, you may have difficulty finding willing buyers for the notes. Consequently, you may not be able to liquidate your investment readily, and the notes may not be readily accepted as collateral for loans. Therefore, you should be aware that you may bear the economic risk of an investment in the notes until maturity.

If markets for the notes do not develop, you may not be able to resell your notes for an extended period of time, if at all. Consequently, your lenders may be reluctant to accept the notes as collateral for loans. In addition, in response to prevailing interest rates and market conditions generally, the notes could trade at a price lower than their initial offering price.

### **The trading price of the notes may be volatile.**

The trading price of the notes could be subject to significant fluctuation in response to, among other factors, changes in our operating results, interest rates, the market for non-investment grade securities, general economic conditions, and securities analysts' recommendations regarding our securities.

### **The interests of our stockholders may not be aligned with your interests as a holder of the notes.**

Stockholders control all of our affairs and policies. Circumstances may occur in which the interests of our equity holders could be in conflict with the interests of the holders of the notes. In addition, our stockholders may have an interest in pursuing acquisitions, divestitures or other transactions that, in their judgment, could enhance their equity investment, even though such transactions might involve risks to holders of the notes. For example, our stockholders may cause us or our subsidiaries to make acquisitions that increase the amount of our and our subsidiaries indebtedness or sell assets, either of which may impair the ability of our subsidiaries to make distributions to us and thus our ability to make payments under the notes.

### **Federal and state fraudulent transfer laws may permit a court to void the notes and the guarantees, and if that occurs, you may not receive any payments on the notes.**

The issuance of the notes and the guarantees may be subject to review under federal and state fraudulent transfer and conveyance statutes. While the relevant laws may vary from state to state, under such laws the payment of consideration will be a fraudulent conveyance if (1) we paid the consideration with the intent of hindering, delaying or defrauding creditors or (2) we or any of the guarantors, as applicable, received less than reasonably equivalent value

Your ability to transfer the exchange notes may be limited by the absence of an active trading market, and there is no

or fair consideration in return for issuing either the notes or a guarantee, and, in the case of (2) only, one of the following is also true:

we or any of the guarantors were insolvent or rendered insolvent by reason of the incurrence of the indebtedness; payment of the consideration left us or any of the guarantors with an unreasonably small amount of capital to carry on the business;

we or any of the guarantors intended to, or believed that it would, incur debts beyond our ability to pay as they mature; or

we were a defendant in an action for money damages docketed against us if, in either case, after final judgment the judgment is unsatisfied.

18

---

TABLE OF CONTENTS

If a court were to find that the issuance of the notes or a guarantee was a fraudulent conveyance, the court could void the payment obligations under the notes or such guarantee or further subordinate the notes or such guarantee to presently existing and future indebtedness of us or such guarantor, or require the holders of the notes to repay any amounts received with respect to the notes or such guarantee. In the event of a finding that a fraudulent conveyance occurred, you may not receive any repayment on the notes.

Further, the voidance of the notes could result in an event of default with respect to our and our subsidiaries' other debt that could result in acceleration of such debt. Generally, an entity would be considered insolvent if, at the time it incurred indebtedness:

the sum of its debts, including contingent liabilities, was greater than the fair salable value of all its assets; the present fair salable value of its assets was less than the amount that would be required to pay its probable liability on its existing debts and liabilities, including contingent liabilities, as they become absolute and mature; or it could not pay its debts as they become due.

We cannot be certain as to the standards a court would use to determine whether or not we or the guarantors were solvent at the relevant time, or regardless of the standard that a court uses, that the issuance of the notes and the guarantees would not be further subordinated to our or any of our guarantors' other debt.

We believe that at the time the notes are initially issued the Issuer and each guarantor will be:

neither insolvent nor rendered insolvent thereby;  
in possession of sufficient capital to run its businesses effectively;  
incurring indebtedness within its ability to pay as the same mature or become due; and  
holding sufficient assets to satisfy any probable money judgment against it in any pending action.

In reaching these conclusions, we have relied upon our analysis of internal cash flow projections, which, among other things, assume that we will in the future realize certain selling price and volume increases and favorable changes in business mix, and estimated values of assets and liabilities. We cannot assure you, however, that a court passing on such questions would reach the same conclusions. Further, to the extent that the notes are guaranteed in the future by any subsidiary, a court passing on such guarantor regarding any such guarantee could conclude that such guarantee constituted a fraudulent conveyance or transfer.

The indenture governing the notes contains a provision intended to limit each guarantor's liability to the maximum amount that it could incur without causing the incurrence of obligations under its guarantee to be a fraudulent transfer. This provision may not be effective to protect the guarantees from being voided under fraudulent transfer law, or may eliminate the guarantor's obligations or reduce the guarantor's obligations to an amount that effectively makes the guarantee worthless. In a recent Florida bankruptcy case, this kind of provision was found to be ineffective to protect the guarantees.

If the guarantees were legally challenged, any guarantee could also be subject to the claim that, since the guarantee was incurred for our benefit, and only indirectly for the benefit of the applicable guarantor, the obligations of the applicable guarantor were incurred for less than fair consideration. A court could thus void the obligations under the guarantees, subordinate them to the applicable guarantor's other debt or take other action detrimental to the holders of the notes.

**If a bankruptcy petition were filed by or against us, you may receive a lesser amount for your claim than you would be entitled to receive under the indenture governing the notes.**

If a bankruptcy petition were filed by or against us, you may receive a lesser amount for your claim than you would

Edgar Filing: IDE IMAGING PARTNERS INC - Form S-4

If a bankruptcy petition were filed by or against us under the United States Bankruptcy Code after the issuance of the notes, the claim by any holder of the notes for the principal amount of the notes may be limited to an amount equal to the sum of:

the original issue price for the notes; and

## TABLE OF CONTENTS

that portion of the original issue discount, if any, that does not constitute unamortized interest for purposes of the United States Bankruptcy Code.

Any original issue discount that was not amortized as of the date of the bankruptcy filing would constitute unamortized interest. Accordingly, holders of the notes under these circumstances may receive a lesser amount than they would be entitled to under the terms of the indenture governing the notes, even if sufficient funds are available.

## **Risks Relating to our Business**

### **If BRMG or any of our other contracted radiology practices terminate their agreements with us, our business could substantially diminish.**

Our relationship with BRMG and our other radiology groups is an integral part of our business. Through our management agreement, BRMG provides all of the professional medical services at 92 of our 102 California facilities. Professional medical services are provided at the balance of our other facilities through management contracts with other radiology groups. BRMG and these other radiology groups contract with various other independent physicians and physician groups to provide all of the professional medical services at most of our facilities, and they must use their best efforts to provide the professional medical services at any new facilities that we open or acquire in their areas of operation. In addition, BRMG and the other radiology groups' strong relationships with referring physicians are largely responsible for the revenue generated at the facilities they service. Although our management agreement with BRMG runs until 2014, and for terms as long, if not longer, with the other groups, BRMG and the other radiology groups have the right to terminate the agreements if we default on our obligations and fail to cure the default. Also, the various radiology groups' ability to continue performing under the management agreements may be curtailed or eliminated due to the groups' financial difficulties, loss of physicians or other circumstances. If the radiology groups cannot perform their obligations to us, we would need to contract with one or more other radiology groups to provide the professional medical services at the facilities serviced by the group. We may not be able to locate radiology groups willing to provide those services on terms acceptable to us, if at all. Even if we were able to do so, any replacement radiology group's relationships with referring physicians may not be as extensive as those of the terminated group. In any such event, our business could be seriously harmed. In addition, the radiology groups are party to substantially all of the managed care contracts from which we derive revenue. If we were unable to readily replace these contracts, our revenue would be negatively affected.

### **Adverse changes in general domestic and worldwide economic conditions and instability and disruption of credit markets could adversely affect our operating results, financial condition, or liquidity.**

We are subject to risk arising from adverse changes in general domestic and global economic conditions, including recession or economic slowdown and disruption of credit markets. Recent global market and economic conditions have been unprecedented and challenging with tighter credit conditions and recession in most major economies continuing into 2010. Continued concerns about the systemic impact of potential long-term and widespread recession, inflation, energy costs, geopolitical issues, the availability and cost of credit and the United States mortgage market have contributed to increased market volatility and diminished expectations for the United States economy. Added concerns fueled by the United States government's financial assistance to certain companies and other federal government's interventions in the United States financial system has led to increased market uncertainty and instability in both United States and international capital and credit markets. These conditions, combined with volatile oil prices, declining business and consumer confidence and increased unemployment, have contributed to volatility of unprecedented levels. We believe our MRI and PET/CT scan volumes were impacted in 2009 and continuing into

2010 by rising unemployment rates, the number of under-insured or uninsured patients and other conditions arising from the global economic conditions described above.

As a result of these market conditions, the cost and availability of credit has been and may continue to be adversely affected by illiquid credit markets and wider credit spreads. Concern about the stability of the markets generally and the strength of counterparties specifically has led many lenders and institutional investors to reduce, and in some cases, cease to provide funding to borrowers.

TABLE OF CONTENTS

Continued turbulence in the United States and international markets and economies may adversely affect our liquidity and financial condition, and the liquidity and financial condition of our customers. If these market conditions continue, they may limit our ability, and the ability of our customers, to timely replace maturing liabilities, and access the capital markets to meet liquidity needs, resulting in adverse effects on our financial condition and results of operations.

**We have experienced operating losses and we have a substantial accumulated deficit. If we are unable to improve our financial performance, we may be unable to pay our obligations.**

We have incurred net losses of \$15.9 million, \$2.3 million, \$12.8 million and \$18.1 million, for the six months ended June 30, 2010 and for the years ended December 31, 2009, 2008 and 2007, respectively. As of June 30, 2010, our accumulated deficit was \$88.3 million. We cannot provide any assurances as to the likelihood, timing, or extent of our ability to achieve net income from operations. If we cannot generate income from operations in sufficient amounts, we will not be able to pay our obligations as they become due. Our inability to generate income from operations to pay our obligations could adversely impact our business, financial condition and results of operations.

**Our success depends in part on our key personnel and loss of key executives could adversely affect our operations. In addition, former employees and radiology practices we have previously contracted with could use the experience and relationships developed while employed or under contract with us to compete with us.**

Our success depends in part on our ability to attract and retain qualified senior and executive management, managerial and technical personnel. Competition in recruiting these personnel may make it difficult for us to continue our growth and success. The loss of their services or our inability in the future to attract and retain management and other key personnel could hinder the implementation of our business strategy. The loss of the services of Dr. Howard G. Berger, our President and Chief Executive Officer, and Norman R. Hames or Stephen M. Forthuber, our Chief Operating Officers, west and east coast, respectively, could have a significant negative impact on our operations. We believe that they could not easily be replaced with executives of equal experience and capabilities. We do not maintain key person insurance on the life of any of our executive officers with the exception of a \$5.0 million policy on the life of Dr. Berger. Also, if we lose the services of Dr. Berger, our relationship with BRMG could deteriorate, which would materially adversely affect our business.

Many of the states in which we operate do not enforce agreements that prohibit a former employee from competing with a former employer. As a result, many of our employees whose employment is terminated are free to compete with us, subject to prohibitions on the use of confidential information and, depending on the terms of the employee's employment agreement, on solicitation of existing employees and customers. A former executive, manager or other key employee who joins one of our competitors could use the relationships he or she established with third party payors, radiologists or referring physicians while our employee and the industry knowledge he or she acquired during that tenure to enhance the new employer's ability to compete with us.

The agreements with most of our radiology practices contain non-compete provisions, however, the enforceability of these provisions is determined by a court based on all the facts and circumstances of the specific case at the time enforcement is sought. Our inability to enforce radiologists' non-compete provisions could result in increased competition from individuals who are knowledgeable about our business strategies and operations.

We have experienced operating losses and we have a substantial accumulated deficit. If we are unable to improve



**The California budget crisis, if not successfully resolved could have an impact on our revenue.**

California is experiencing a budget crisis which has resulted in significant state government cutbacks. 102 of our 191 facilities are located in California. One to one-and-one-half percent (1% to 1.5%) of our revenues come from the California Medicaid program (\$5 million to \$7.5 million). To the extent California is unable to provide these payments on a timely basis, or at all, our revenues will be negatively impacted.

21

---

TABLE OF CONTENTS

**Our failure to integrate the businesses we acquire successfully and on a timely basis could reduce our profitability.**

We may never realize expected synergies, business opportunities and growth prospects in connection with our acquisitions. We may experience increased competition that limits our ability to expand our business. We may not be able to capitalize on expected business opportunities, assumptions underlying estimates of expected cost savings may be inaccurate, or general industry and business conditions may deteriorate. In addition, integrating operations will require significant efforts and expenses on our part. Personnel may leave or be terminated because of an acquisition.

Our management may have its attention diverted while trying to integrate an acquisition. If these factors limit our ability to integrate the operations of an acquisition successfully or on a timely basis, our expectations of future results of operations, including certain cost savings and synergies as a result of the acquisition, may not be met. In addition, our growth and operating strategies for a target's business may be different from the strategies that the target company pursued prior to our acquisition. If our strategies are not the proper strategies, it could have a material adverse effect on our business, financial condition and results of operations.

**Our ability to generate revenue depends in large part on referrals from physicians.**

A significant reduction in physician referrals would have a negative impact on our business. We derive substantially all of our net revenue, directly or indirectly, from fees charged for the diagnostic imaging services performed at our facilities. We depend on referrals of patients from unaffiliated physicians and other third parties who have no contractual obligations to refer patients to us for a substantial portion of the services we perform. If a sufficiently large number of these physicians and other third parties were to discontinue referring patients to us, our scan volume could decrease, which would reduce our net revenue and operating margins. Further, commercial third-party payors have implemented programs that could limit the ability of physicians to refer patients to us. For example, prepaid healthcare plans, such as health maintenance organizations, sometimes contract directly with providers and require their enrollees to obtain these services exclusively from those providers. Some insurance companies and self-insured employers also limit these services to contracted providers. These closed panel systems are now common in the managed care environment. Other systems create an economic disincentive for referrals to providers outside the system's designated panel of providers. If we are unable to compete successfully for these managed care contracts, our results and prospects for growth could be adversely affected.

**Pressure to control healthcare costs could have a negative impact on our results.**

One of the principal objectives of health maintenance organizations and preferred provider organizations is to control the cost of healthcare services. Healthcare providers participating in managed care plans may be required to refer diagnostic imaging tests to certain providers depending on the plan in which a covered patient is enrolled. In addition, managed care contracting has become very competitive, and reimbursement schedules are at or below Medicare reimbursement levels. The expansion of health maintenance organizations, preferred provider organizations and other managed care organizations within the geographic areas covered by our network could have a negative impact on the utilization and pricing of our services, because these organizations will exert greater control over patients' access to diagnostic imaging services, the selections of the provider of such services and reimbursement rates for those services.

**If our contracted radiology practices, including BRMG, lose a significant number of their radiologists, our financial results could be adversely affected.**

At times, there has been a shortage of qualified radiologists in some of the regional markets we serve. In addition, competition in recruiting radiologists may make it difficult for our contracted radiology practices to maintain adequate levels of radiologists. If a significant number of radiologists terminates their relationships with our contracted radiology practices and those radiology practices cannot recruit sufficient qualified radiologists to fulfill their obligations under our agreements with them, our ability to maximize the use of our diagnostic imaging facilities and our financial results could be adversely affected. For example, in fiscal 2002, due to a shortage of qualified radiologists in the marketplace, BRMG experienced difficulty in hiring and retaining physicians and thus engaged independent contractors and part-time fill-in physicians. Their cost was double the salary of a regular BRMG full-time physician. Increased expenses to BRMG will impact our

TABLE OF CONTENTS

financial results because the management fee we receive from BRMG, which is based on a percentage of BRMG's collections, is adjusted annually to take into account the expenses of BRMG. Neither we, nor our contracted radiology practices, maintain insurance on the lives of any affiliated physicians.

**We may not be able to successfully grow our business, which would adversely affect our financial condition and results of operations.**

Our ability to successfully expand through acquiring facilities, developing new facilities, adding equipment at existing facilities, and directly or indirectly entering into contractual relationships with high-quality radiology practices depends upon many factors, including our ability to:

- identify attractive and willing candidates for acquisitions;
- identify locations in existing or new markets for development of new facilities;
- comply with legal requirements affecting our arrangements with contracted radiology practices, including state prohibitions on fee-splitting, corporate practice of medicine and self-referrals;
- obtain regulatory approvals where necessary and comply with licensing and certification requirements applicable to our diagnostic imaging facilities, the contracted radiology practices and the physicians associated with the contracted radiology practices;

- recruit a sufficient number of qualified radiology technologists and other non-medical personnel;
- expand our infrastructure and management; and

compete for opportunities. We may not be able to compete effectively for the acquisition of diagnostic imaging facilities. Our competitors may have more established operating histories and greater resources than we do. Competition may also make any acquisitions more expensive.

Acquisitions involve a number of special risks, including the following:

- inability to obtain adequate financing;
- possible adverse effects on our operating results;
- diversion of management's attention and resources;
- failure to retain key personnel;

- difficulties in integrating new operations into our existing infrastructure; and
- amortization or write-offs of acquired intangible assets, including goodwill.

If we are unable to successfully grow our business through acquisitions it could have an adverse effect on our financial condition and results of operations.

**We may become subject to professional malpractice liability, which could be costly and negatively impact our business.**

The physicians employed by our contracted radiology practices are from time to time subject to malpractice claims. We structure our relationships with the practices under our management agreements in a manner that we believe does not constitute the practice of medicine by us or subject us to professional malpractice claims for acts or omissions of physicians employed by the contracted radiology practices. Nevertheless, claims, suits or complaints relating to services provided by the contracted radiology practices have been asserted against us in the past and may be asserted against us in the future. In addition, we may be subject to professional liability claims, including, without limitation, for improper use or malfunction of our diagnostic imaging equipment or for accidental contamination or injury from exposure to radiation. We may not be able to maintain adequate liability insurance to protect us against those claims at acceptable costs or at all.

We may not be able to successfully grow our business, which would adversely affect our financial condition and res

Any claim made against us that is not fully covered by insurance could be costly to defend, result in a substantial damage award against us and divert the attention of our management from our operations, all of which could have an adverse effect on our financial performance. In addition, successful claims against us

TABLE OF CONTENTS

may adversely affect our business or reputation. Although California places a \$250,000 limit on non-economic damages for medical malpractice cases, no limit applies to economic damages and no such limits exist in the other states in which we now provide services.

**We may not receive payment from some of our healthcare provider customers because of their financial circumstances.**

Some of our healthcare provider customers do not have significant financial resources, liquidity or access to capital. If these customers experience financial difficulties they may be unable to pay us for the equipment and services that we provide. A significant deterioration in general or local economic conditions could have a material adverse effect on the financial health of certain of our healthcare provider customers. As a result, we may have to increase the amounts of accounts receivables that we write-off, which would adversely affect our financial condition and results of operations.

**Some of our imaging modalities use radioactive materials, which generate regulated waste and could subject us to liabilities for injuries or violations of environmental and health and safety laws.**

Some of our imaging procedures use radioactive materials, which generate medical and other regulated wastes. For example, patients are injected with a radioactive substance before undergoing a PET scan. Storage, use and disposal of these materials and waste products present the risk of accidental environmental contamination and physical injury. We are subject to federal, state and local regulations governing storage, handling and disposal of these materials. We could incur significant costs and the diversion of our management's attention in order to comply with current or future environmental and health and safety laws and regulations. Also, we cannot completely eliminate the risk of accidental contamination or injury from these hazardous materials. Although we believe that we maintain professional liability insurance coverage consistent with industry practice in the event of an accident, we could be held liable for any resulting damages, and any liability could exceed the limits of or fall outside the coverage of our professional liability insurance.

**We experience competition from other diagnostic imaging companies and hospitals, and this competition could adversely affect our revenue and business.**

The market for diagnostic imaging services is highly competitive. We compete principally on the basis of our reputation, our ability to provide multiple modalities at many of our facilities, the location of our facilities and the quality of our diagnostic imaging services. We compete locally with groups of radiologists, established hospitals, clinics and other independent organizations that own and operate imaging equipment. Our competitors include Alliance Healthcare Services, Inc., Diagnostic Imaging Group, InSight Health Services Corp. and American Radiology Services. Some of our competitors may now or in the future have access to greater financial resources than we do and may have access to newer, more advanced equipment. In addition, some physician practices have established their own diagnostic imaging facilities within their group practices and compete with us. We are experiencing increased competition as a result of such activities, and if we are unable to successfully compete, our business and financial condition would be adversely affected.

**Technological change in our industry could reduce the demand for our services and require us to incur significant costs to upgrade our equipment.**

The development of new technologies or refinements of existing modalities may require us to upgrade and enhance our existing equipment before we may otherwise intend. Many companies currently manufacture diagnostic imaging equipment. Competition among manufacturers for a greater share of the diagnostic imaging equipment market may result in technological advances in the speed and imaging capacity of new equipment. This may accelerate the obsolescence of our equipment, and we may not have the financial ability to acquire the new or improved equipment and may not be able to maintain a competitive equipment base. In addition, advances in technology may enable physicians and others to perform diagnostic imaging procedures without us. If we are unable to deliver our services in the efficient and effective manner that payors, physicians and patients expect and thus our revenue could substantially decrease.

**A failure to meet our capital expenditure requirements could adversely affect our business.**

We operate in a capital intensive, high fixed-cost industry that requires significant amounts of capital to fund operations, particularly the initial start-up and development expenses of new diagnostic imaging facilities

TABLE OF CONTENTS

and the acquisition of additional facilities and new diagnostic imaging equipment. We incur capital expenditures to, among other things, upgrade and replace existing equipment for existing facilities and expand within our existing markets and enter new markets. To the extent we are unable to generate sufficient cash from our operations, funds are not available from our lenders or we are unable to structure or obtain financing through operating leases, long-term installment notes or capital leases, we may be unable to meet our capital expenditure requirements.

**Because we have high fixed costs, lower scan volumes per system could adversely affect our business.**

The principal components of our expenses, excluding depreciation, consist of debt service, capital lease payments, compensation paid to technologists, salaries, real estate lease expenses and equipment maintenance costs. Because a majority of these expenses are fixed, a relatively small change in our revenue could have a disproportionate effect on our operating and financial results depending on the source of our revenue. Thus, decreased revenue as a result of lower scan volumes per system could result in lower margins, which could materially adversely affect our business.

**Capitation fee arrangements could reduce our operating margins.**

For the six months ended June 30, 2010, we derived approximately 15.6% of our revenue from capitation arrangements, and we intend to increase the revenue we derive from capitation arrangements in the future. Under capitation arrangements, the payor pays a pre-determined amount per-patient per-month in exchange for us providing all necessary covered services to the patients covered under the arrangement. These contracts pass much of the financial risk of providing diagnostic imaging services, including the risk of over-use, from the payor to the provider. Our success depends in part on our ability to negotiate effectively, on behalf of the contracted radiology practices and our diagnostic imaging facilities, contracts with health maintenance organizations, employer groups and other third-party payors for services to be provided on a capitated basis and to efficiently manage the utilization of those services. If we are not successful in managing the utilization of services under these capitation arrangements or if patients or enrollees covered by these contracts require more frequent or extensive care than anticipated, we would incur unanticipated costs not offset by additional revenue, which would reduce operating margins.

**We may be unable to effectively maintain our equipment or generate revenue when our equipment is not operational.**

Timely, effective service is essential to maintaining our reputation and high use rates on our imaging equipment. Although we have an agreement with GE Medical Systems pursuant to which it maintains and repairs the majority of our imaging equipment, this agreement does not compensate us for loss of revenue when our systems are not fully operational and our business interruption insurance may not provide sufficient coverage for the loss of revenue. Also, GE Medical Systems may not be able to perform repairs or supply needed parts in a timely manner, which could result in a loss of revenue. Therefore, if we experience more equipment malfunctions than anticipated or if we are unable to promptly obtain the service necessary to keep our equipment functioning effectively, our ability to provide services would be adversely affected and our revenue could decline.

**Disruption or malfunction in our information systems could adversely affect our business.**

Our information technology system is vulnerable to damage or interruption from:



earthquakes, fires, floods and other natural disasters;  
power losses, computer systems failures, internet and telecommunications or data network failures, operator negligence, improper operation by or supervision of employees, physical and electronic losses of data and similar events; and  
computer viruses, penetration by hackers seeking to disrupt operations or misappropriate information and other breaches of security.

25

---

## TABLE OF CONTENTS

We rely on our information systems to perform functions critical to our ability to operate, including patient scheduling, billing, collections, image storage and image transmission. Accordingly, an extended interruption in the system's function could significantly curtail, directly and indirectly, our ability to conduct our business and generate revenue.

### **We are vulnerable to earthquakes, harsh weather and other natural disasters.**

Our corporate headquarters and 102 of our facilities are located in California, an area prone to earthquakes and other natural disasters. Three of our facilities are located in an area of Florida that has suffered from hurricanes. Some of our facilities have been affected by snow and other harsh weather conditions, particularly in February 2010, when winter snow storms in the mid-Atlantic region, including Maryland, Delaware and New Jersey, caused us to close many of our facilities for up to five business days. An earthquake, harsh weather conditions or other natural disaster could decrease scan volume during affected periods and seriously impair our operations. Damage to our equipment or interruption of our business would adversely affect our financial condition and results of operations.

### **If we are unable to generate or borrow sufficient cash to make payments on our indebtedness or to refinance our indebtedness on acceptable terms, our financial condition would be materially harmed, our business may fail and you may lose all of your investment.**

Our ability to make scheduled payments on or to refinance our obligations with respect to our debt will depend on our financial and operating performance, which will be affected by general economic, financial, competitive, business and other factors beyond our control. As a result of the recent global market and economic conditions, the cost and availability of credit and equity capital have been severely impacted. We cannot assure you that our business will generate sufficient cash flow from operations or that future borrowings will be available to us in an amount sufficient to enable us to service our debt or to fund our other liquidity needs. If we are unable to meet our debt obligations or fund our other liquidity needs, we may need to restructure or refinance all or a portion of our debt on or before maturity or sell certain of our assets. We cannot assure you that we will be able to restructure or refinance any of our debt on commercially reasonable terms, if at all, which could cause us to default on our debt obligations and impair our liquidity. Any refinancing of our debt could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations.

## **Risks Related to Government Regulation of Our Business**

### **The regulatory framework in which we operate is uncertain and evolving.**

Healthcare laws and regulations may change significantly in the future. We continuously monitor these developments and modify our operations from time to time as the regulatory environment changes. We cannot assure you, however, that we will be able to adapt our operations to address new regulations or that new regulations will not adversely affect our business. In addition, although we believe that we are operating in compliance with applicable federal and state laws, neither our current or anticipated business operations nor the operations of the contracted radiology practices have been the subject of judicial or regulatory interpretation. We cannot assure you that a review of our business by courts or regulatory authorities will not result in a determination that could adversely affect our operations

or that the healthcare regulatory environment will not change in a way that restricts our operations.

Certain states have enacted statutes or adopted regulations affecting risk assumption in the healthcare industry, including statutes and regulations that subject any physician or physician network engaged in risk-based managed care contracting to applicable insurance laws and regulations. These laws and regulations, if adopted in the states in which we operate, may require physicians and physician networks to meet minimum capital requirements and other safety and soundness requirements. Implementing additional regulations or compliance requirements could result in substantial costs to us and the contracted radiology practices and limit our ability to enter into capitation or other risk-sharing managed care arrangements.

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

From time to time, changes designed to contain healthcare costs have been implemented, some of which have resulted in decreased reimbursement rates for diagnostic imaging services that impact our business. For

TABLE OF CONTENTS

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

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

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

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

Regulatory updates to payment rates for which we bill the Medicare program directly are published annually by CMS in the Federal Register. For payments under the Physician Fee Schedule for calendar year 2010, CMS changed the way it calculates components of the Medicare Physician Fee Schedule. First, CMS reduced payment rates for certain diagnostic services using equipment costing more than \$1 million through revisions to usage assumptions from the current 50% usage rate to a 90% usage rate. This change applied to MRI and CT scans. The Health Care and

Changes in the method or rates of third-party reimbursement could have a negative impact on our results.52

Education Affordability Reconciliation Act (the Reconciliation Act ), signed into law on March 30, 2010, resets the assumed usage rate for diagnostic imaging equipment costing more than \$1 million to a rate of 75%, effective for payments made under the 2011 Medicare Physician Fee Schedule and subsequent years. Further with respect to its 2010 changes, CMS also reduced

TABLE OF CONTENTS

payment for services primarily involving the technical component rather than the physician work component, including the services we provide, by adjusting downward malpractice payments for these services. The reductions primarily impacted radiology and other diagnostic tests. All these changes to the Medicare Physician Fee Schedule will be transitioned over a four-year period such that beginning in 2013, CMS will fully implement the revised payment rates. For the 2010 transitioned payment, CMS estimates the impact of its changes will result in a 5% reduction in radiology, 18% reduction in nuclear medicine and 12% reduction for all suppliers providing the technical component of diagnostic tests generally.

**State and federal anti-kickback and anti-self-referral laws may adversely affect income.**

Various federal and state laws govern financial arrangements among healthcare providers. The federal Anti-kickback Law prohibits the knowing and willful offer, payment, solicitation or receipt of any form of remuneration in return for, or to induce, the referral of Medicare, Medicaid, or other federal healthcare program patients, or in return for, or to induce, the purchase, lease or order of items or services that are covered by Medicare, Medicaid, or other federal healthcare programs. Similarly, many state laws prohibit the solicitation, payment or receipt of remuneration in return for, or to induce the referral of patients in private as well as government programs. Violation of these Anti-kickback Laws may result in substantial civil or criminal penalties for individuals or entities and/or exclusion from federal or state healthcare programs. We believe we are operating in compliance with applicable law and believe that our arrangements with providers would not be found to violate the Anti-kickback Laws. However, these laws could be interpreted in a manner inconsistent with our operations.

Federal law prohibiting physician self-referrals, known as the Stark Law, prohibits a physician from referring Medicare or Medicaid patients to an entity for certain designated health services if the physician has a prohibited financial relationship with that entity, unless an exception applies. Certain radiology services are considered designated health services under the Stark Law. Although we believe our operations do not violate the Stark Law, our activities may be challenged. If a challenge to our activities is successful, it could have an adverse effect on our operations. In addition, legislation may be enacted in the future that further addresses Medicare and Medicaid fraud and abuse or that imposes additional requirements or burdens on us.

In addition, under the DRA, states enacting false claims statutes similar to the federal False Claims Act, which establish liability for submission of fraudulent claims to the State Medicaid program and contain qui tam or whistleblower provisions, receive an increased percentage of any recovery from a State Medicaid judgment or settlement. Adoption of new false claims statutes in states where we operate may impose additional requirements or burdens on us.

**Complying with federal and state regulations is an expensive and time-consuming process, and any failure to comply could result in substantial penalties.**

We are directly or indirectly through the radiology practices with which we contract subject to extensive regulation by both the federal government and the state governments in which we provide services, including:

the federal False Claims Act;  
the federal Medicare and Medicaid Anti-kickback Laws, and state anti-kickback prohibitions;  
federal and state billing and claims submission laws and regulations;

the federal Health Insurance Portability and Accountability Act of 1996 ( HIPAA ), as amended by the Health Information Technology for Economic and Clinical Health Act of 2009 ( HITECH ), and comparable state laws; the federal physician self-referral prohibition commonly known as the Stark Law and the state equivalent of the Stark Law;

state laws that prohibit the practice of medicine by non-physicians and prohibit fee-splitting arrangements involving physicians;

federal and state laws governing the diagnostic imaging and therapeutic equipment we use in our business concerning patient safety, equipment operating specifications and radiation exposure levels; and

28

---

TABLE OF CONTENTS

state laws governing reimbursement for diagnostic services related to services compensable under workers compensation rules.

If our operations are found to be in violation of any of the laws and regulations to which we or the radiology practices with which we contract are subject, we may be subject to the applicable penalty associated with the violation, including civil and criminal penalties, damages, fines and the curtailment of our operations. Any penalties, damages, fines or curtailment of our operations, individually or in the aggregate, could adversely affect our ability to operate our business and our financial results. The risks of our being found in violation of these laws and regulations is increased by the fact that many of them have not been fully interpreted by the regulatory authorities or the courts, and their provisions are open to a variety of interpretations. Any action brought against us for violation of these laws or regulations, even if we successfully defend against it, could cause us to incur significant legal expenses and divert our management's attention from the operation of our business.

**If we fail to comply with various licensure, certification and accreditation standards, we may be subject to loss of licensure, certification or accreditation, which would adversely affect our operations.**

Ownership, construction, operation, expansion and acquisition of our diagnostic imaging facilities are subject to various federal and state laws, regulations and approvals concerning licensing of personnel, other required certificates for certain types of healthcare facilities and certain medical equipment. In addition, freestanding diagnostic imaging facilities that provide services independent of a physician's office must be enrolled by Medicare as an independent diagnostic treatment facility, or IDTF, to bill the Medicare program. Medicare carriers have discretion in applying the IDTF requirements and therefore the application of these requirements may vary from jurisdiction to jurisdiction. In addition, federal legislation requires all suppliers that provide the technical component of diagnostic MRI, PET/CT, CT, and nuclear medicine to be accredited by an accreditation organization designated by CMS (which currently include the American College of Radiology (ACR), the Intersocietal Accreditation Commission (IAC) and the Joint Commission) by January 1, 2012. Our MRI, CT, nuclear medicine, ultrasound and mammography facilities are currently accredited by the ACR. We may not be able to receive the required regulatory approvals or accreditation for any future acquisitions, expansions or replacements, and the failure to obtain these approvals could limit the opportunity to expand our services.

Our facilities are subject to periodic inspection by governmental and other authorities to assure continued compliance with the various standards necessary for licensure and certification. If any facility loses its certification under the Medicare program, then the facility will be ineligible to receive reimbursement from the Medicare and Medicaid programs. For the year ended December 31, 2009, approximately 23% of our net revenue came from the Medicare and Medicaid programs. A change in the applicable certification status of one of our facilities could adversely affect our other facilities and in turn us as a whole. We have experienced a slowdown in the credentialing of our physicians over the last several years which has lengthened our billing and collection cycle, and could negatively impact our ability to collect revenue from patients covered by Medicare. Credentialing of physicians is required by our payors prior to commencing payment.

**Our agreements with the contracted radiology practices must be structured to avoid the corporate practice of medicine and fee-splitting.**

State law prohibits us from exercising control over the medical judgments or decisions of physicians and from engaging in certain financial arrangements, such as splitting professional fees with physicians. These laws are enforced by state courts and regulatory authorities, each with broad discretion. A component of our business has been

If we fail to comply with various licensure, certification and accreditation standards, we may be subject to loss of licensure



to enter into management agreements with radiology practices. We provide management, administrative, technical and other non-medical services to the radiology practices in exchange for a service fee typically based on a percentage of the practice's revenue. We structure our relationships with the radiology practices, including the purchase of diagnostic imaging facilities, in a manner that we believe keeps us from engaging in the practice of medicine or exercising control over the medical judgments or decisions of the radiology practices or their physicians, or violating the prohibitions against fee-splitting. There can be no assurance that our present arrangements with BRMG or the physicians providing medical services and medical supervision at our imaging facilities will not be challenged, and, if challenged, that they will not be found to violate the corporate practice of medicine or fee splitting prohibitions, thus subjecting us to potential damages,

TABLE OF CONTENTS

injunction and/or civil and criminal penalties or require us to restructure our arrangements in a way that would affect the control or quality of our services and/or change the amounts we receive under our management agreements. Any of these results could jeopardize our business.

**Newly enacted and future federal legislation could limit the prices we can charge for our services, which would reduce our revenue and adversely affect our operating results.**

The PPACA and the Reconciliation Act introduced certain changes that may result in decreased revenue for the scans we perform. Among other things, the new legislation will adjust Medicare payment rates for physician imaging services in an attempt to better reflect actual usage, by revising upward the assumed usage rate for diagnostic imaging equipment costing more than \$1 million. For certain diagnostic services performed on or after January 1, 2011, the legislation reduces the assumed usage rate for such equipment from CMS's current rate of 90% to a rate of 75%, resulting in an increase in payment rates for such services. The new legislation also adjusts the technical component discount on single-session imaging studies on contiguous body parts from 25% to 50% as initially mandated by DRA.

These latter changes will reduce payments for the applicable services and thus may result in a decrease in the associated revenues we receive. Other changes in reimbursement for services rendered by Medicare Advantage plans may reduce the revenues we receive for services rendered to Medicare Advantage enrollees.

We cannot predict at this time the full impact of the healthcare reform measures, nor can we predict the extent to which future reform measures may be initiated and implemented.

TABLE OF CONTENTS

## FORWARD-LOOKING STATEMENTS

This prospectus includes statements under the captions Prospectus Summary, Risk Factors, Management's Discussion and Analysis of Financial Condition and Results of Operations, Business and elsewhere in this prospectus that are not statements of historical fact that constitute forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). These statements relate to future events or our future financial performance, and involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as may, will, should, expect, intend, plan, anticipate, believe, estimate, predict, potential, could, or other negative of these terms or other comparable terminology. The forward-looking statements contained herein reflect our current views with respect to future events and are based on our currently available financial, economic and competitive data and on current business plans. Actual events or results may differ materially depending on risks and uncertainties that may affect our operations, markets, services, prices and other factors.

We intend 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, our assumptions with respect to:

- future revenues;
- expected performance and cash flows;
- changes in regulations affecting the Issuer;
- changes in third-party reimbursement rates;
- the outcome of litigation;
- the availability of radiologists at Beverly Radiology Medical Group III 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.

Although forward-looking statements reflect management's good faith beliefs, they involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events, changed circumstances or otherwise. These forward-looking statements are subject to numerous risks and uncertainties described in Risk Factors. Given these risks and uncertainties, you are cautioned not to place undue reliance on these forward-looking statements. The forward-looking statements included in this prospectus are made only as of the date hereof. We do not undertake and specifically decline any obligation to update any such statements or to publicly announce the results of any revisions to any of such statements to reflect future events or developments.



TABLE OF CONTENTS

## THE REFINANCING TRANSACTIONS

On April 6, 2010, Radnet Management issued and sold \$200,000,000 in 10 3/8% senior notes due 2018, which are the subject of the exchange offer described in this prospectus, to the initial purchasers, Deutsche Bank Securities Inc., Barclays Capital Inc., RBC Capital Markets Corporation and Jefferies & Company Inc. All payments of the 10 3/8% senior notes due 2018, including principal and interest, are guaranteed jointly and severally on a senior unsecured basis by RadNet, Inc. and all of Radnet Management's current and future domestic wholly owned restricted subsidiaries. The 10 3/8% notes due 2018 were issued under an indenture, dated April 6, 2010, by and among Radnet Management, as issuer, RadNet, Inc., as parent guarantor, the subsidiary guarantors listed on the Table of Additional Registrant Guarantors, and U.S. Bank National Association, as trustee, in a private transaction that was not subject to the registration requirements of the Securities Act. Please refer to the section entitled Description of Notes for additional information on the material provisions of the indenture and the notes.

In connection with the sale of the 10 3/8% senior notes due 2018, Radnet Management, RadNet, Inc. and the guarantors listed on the Table of Additional Registrant Guarantors entered into a registration rights agreement, dated as of April 6, 2010, with Deutsche Bank Securities Inc. and Barclays Capital Inc., as the representatives of the initial purchasers of the Notes. Pursuant to this registration rights agreement, Radnet Management, RadNet, Inc. and the other subsidiary guarantors listed on the Table of Additional Registrant Guarantors agreed to file a registration statement in connection with, and to consummate an exchange offer enabling holders of the 10 3/8% senior notes due 2018 to exchange the 10 3/8% senior notes due 2018 for publicly registered exchange notes with nearly identical terms.

On April 6, 2010, Radnet Management entered into a Credit and Guaranty Agreement with Barclays Capital, Deutsche Bank Securities Inc., GE Capital Markets, Inc. and Royal Bank of Canada, as joint bookrunners and joint lead arrangers, Barclays Bank PLC, as administrative agent and collateral agent, and certain other lenders, whereby Radnet Management obtained \$385,000,000 in senior secured first lien bank financing, consisting of (i) a \$285,000,000, six-year term loan facility and (ii) a \$100,000,000, five-year revolving credit facility, including a swing line subfacility and a letter of credit subfacility. Radnet Management's obligations under this Credit and Guaranty Agreement are unconditionally guaranteed by RadNet, Inc., all of Radnet Management's current and future wholly owned domestic subsidiaries as well as certain affiliates, including Beverly Radiology Medical Group III and its equity holders (Beverly Radiology Medical Group, Inc., BreastLink Medical Group, Inc. and ProNet Imaging Medical Group, Inc.). See Selected Historical Consolidated Financial Data, Certain Relationships and Related Party Transactions and Description of Other Indebtedness. These New Credit Facilities created by the Credit and Guaranty Agreement are secured by a perfected first priority security interest in all of Radnet Management's and the guarantors tangible and intangible assets, including, but not limited to, pledges of equity interests of Radnet Management and all of our current and future wholly owned domestic subsidiaries.

In connection with the issuance of the 10 3/8% senior notes due 2018 and entering into the Credit and Guaranty Agreement, Radnet Management used the net proceeds from the issuance of the 10 3/8% senior notes due 2018 and the New Credit Facilities created by the Credit and Guaranty Agreement to repay all outstanding amounts under its existing first lien term loan for \$242.6 million in aggregate principal amount outstanding, which would have matured on November 15, 2012, and the existing second lien term loan for \$170.0 million in aggregate principal amount outstanding, which would have matured on November 15, 2013.

TABLE OF CONTENTS

## **USE OF PROCEEDS**

We will not receive any cash proceeds from the issuance of the exchange notes pursuant to the exchange offer. In consideration for issuing the exchange notes as contemplated in this prospectus, we will receive in exchange a like principal amount of outstanding notes, the terms of which are identical in all material respects to the exchange notes.

The outstanding notes surrendered in exchange for the exchange notes will be retired and canceled and cannot be reissued. Accordingly, the issuance of the exchange notes will not result in any change in our capitalization.

TABLE OF CONTENTS**CAPITALIZATION**

The following table sets forth our cash and cash equivalents and capitalization as of June 30, 2010.

You should read this table in conjunction with the information contained in The Refinancing Transactions, Selected Historical Consolidated Financial Data, Management's Discussion and Analysis of Financial Condition and Results of Operations, as well as our consolidated financial statements and the notes thereto included elsewhere in this prospectus.

	As of June 30, 2010 (unaudited) (in millions)
Cash and cash equivalents	\$ 20.5
Debt	
Revolving Credit Facility	\$
Term Loan	284.3
Total Bank Debt	284.3
Capital Leases and other secured notes	27.7
Total Secured Debt	312.0
10 3/8% Senior Unsecured Notes offered hereby	197.4 <sup>(1)</sup>
Other Unsecured Debt	1.0
Total Debt	510.4
Equity Deficit	
Common stock \$0.0001 par value, 200,000,000 shares authorized, 36,979,725 shares issued and outstanding	
Paid-in capital	160.2
Accumulated other comprehensive loss	(2.7 )
Accumulated deficit <sup>(2)</sup>	(245.9 )
Total RadNet, Inc.'s equity deficit	(88.4 )
Noncontrolling interests	.1
Total equity deficit	(88.3 )
Total Capitalization	\$ 529.0

The outstanding notes were issued at a discount of approximately \$2.6 million and were recorded on our balance sheet at their discounted amount of \$197.4 million with the \$2.6 million discount to be amortized over the life of the notes as interest expense.

TABLE OF CONTENTS

## **SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA**

The following table sets forth our selected historical consolidated financial data. The selected consolidated statements of operations data set forth below for the years ended December 31, 2009, 2008 and 2007, and the consolidated balance sheet data as of December 31, 2009 and 2008 are derived from our audited consolidated financial statements and notes thereto included elsewhere herein. The consolidated statement of operations data set forth below for the three months and six months ended June 30, 2010 and 2009 and the consolidated balance sheet data as of June 30, 2010 and 2009 were derived from our unaudited consolidated financial statements and notes thereto. The selected consolidated statements of operations data set forth below for the years ended October 31, 2006 and 2005 and the two-months ended December 31, 2006, and the consolidated balance sheet data set forth below as of December 31, 2007 and 2006 and October 31, 2006 and 2005, are derived from our audited consolidated financial statements not included herein. The selected consolidated statements of operations data set forth below for the year ended December 31, 2006, and as of and for the two-months ended December 31, 2005 are unaudited.

This data should be read in conjunction with and is qualified in its entirety by reference to the audited and unaudited consolidated financial statements and the related notes included elsewhere herein and Management's Discussion and Analysis of Financial Condition and Results of Operations. The selected consolidated statement of operations data for the year ended December 31, 2006 was calculated by subtracting the data for the two-months ended December 31, 2005, from the data for the year ended October 31, 2006, and then adding the data for the two-months ended December 31, 2006. In the opinion of management, our unaudited consolidated financial data has been prepared on the same basis as the audited consolidated financial statements and contain all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of our financial position and results of operations for the relevant periods.

The financial data set forth below and discussed in this prospectus are derived from the consolidated financial statements of RadNet, Inc., its subsidiaries and certain affiliates. As described further in Note 1 to the accompanying financial statements included elsewhere herein, as a result of the contractual and operational relationship among Beverly Radiology Medical Group III (BRMG), Dr. Berger and us, we are considered to be the primary beneficiary of the operations of BRMG, which we have determined is a variable interest entity pursuant to applicable accounting guidance. Consequently, we are required to include BRMG as a consolidated entity in our consolidated financial statements. This means, for example, that revenue generated by BRMG from the provision of professional medical services to our patients, as well as BRMG's costs of providing those services, are included as net revenue and operating expenses, respectively, in our consolidated statement of operations, whereas the management fee that BRMG pays to us under our management agreement with BRMG is eliminated as a result of the consolidation of our results with those of BRMG. If BRMG were not treated as a consolidated entity in our consolidated financial statements, the presentation of certain items in our income statement, such as net revenue and costs and expenses, would change but our net income would not materially change, because in operation and historically, the annual revenue of BRMG from all sources closely approximates its expenses, including Dr. Berger's compensation, fees payable to us and amounts payable to third parties. BRMG is a guarantor under our New Credit Facilities, but does not guarantee the notes.



TABLE OF CONTENTS

(1) Ratio of earnings to fixed charges was calculated by dividing earnings by fixed charges. For purposes of calculating the ratio of earnings to fixed charges, earnings are defined as income (loss) before income taxes, plus noncontrolling interest, plus distributions from unconsolidated investees, plus fixed charges, less income from equity investments. Fixed charges are the sum of interest on all indebtedness, amortization of debt issuance costs and estimated interest on rental expense. Earnings were inadequate to cover fixed charges by \$14.4 million and \$2.5 million for the years ended December 31, 2008 and 2009, respectively, \$0.2 million and \$11.2 million for the three months ended June 30, 2009 and 2010, respectively, and \$1.8 million and \$13.7 million for the six months ended June 30, 2009 and 2010, respectively.

36

---

TABLE OF CONTENTS

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*You should read the following discussion and analysis of our financial condition and results of operations with Selected Historical Consolidated Financial Data and the consolidated financial statements and related notes included elsewhere in this prospectus. This discussion contains forward-looking statements and involves numerous risk and uncertainties, including but not limited to those described in the Risk Factors section of this prospectus. Actual results may differ materially from those contained in any forward-looking statements. You should read Forward-Looking Statements and Risk Factors.*

## Overview

### Business Overview

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

We seek to develop leading positions in regional markets in order to leverage operational efficiencies. Our scale and density within our selected geographies provides close, long-term relationships with key payors, radiology groups and referring physicians. Each of our facility managers is responsible for meeting our standards of patient service, managing relationships with local physicians and payors and maintaining profitability. We provide corporate training programs, standardized policies and procedures and sharing of best practices among the physicians in our regional networks.

As of June 30, 2010, we had in operation 147 MRI systems, 86 CT systems, 33 PET or combination PET/CT systems, 42 nuclear medicine systems, 157 X-ray systems, 131 mammography systems and 93 fluoroscopy systems.

Our revenue is derived from a diverse mix of payors, including private payors, managed care capitated payors and government payors. We believe our payor diversity mitigates our exposure to possible unfavorable reimbursement trends within any one-payor class. In addition, our experience with capitation arrangements over the last several years has provided us with the expertise to manage utilization and pricing effectively, resulting in a predictable stream of revenue. For the three months ended June 30, 2010, we received approximately 55.5% of our revenue from commercial insurance payors, 15.6% from managed care capitated payors, 19.5% from Medicare and 3.0% from Medicaid. With the exception of Blue Cross/Blue Shield and government payors, no single payor accounted for more than 5% of our net revenue for the six months ended June 30, 2010 or the 12 months ended December 31, 2009.

The consolidated financial statements include the accounts of Radnet Management and 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 affiliated entities are referred to collectively in this prospectus as RadNet, we, us, our or the Company.

## Recent Developments

On January 1, 2010, we completed the acquisition of Union Imaging Center in Union, New Jersey from Modern Medical Modalities Corporation for approximately \$5.4 million in cash and the issuance of 75,000 shares of RadNet, Inc. common stock valued at approximately \$153,000 on the date of acquisition. The center

TABLE OF CONTENTS

operates imaging modalities including MRI, CT, PET/CT, mammography, ultrasound, nuclear medicine and X-ray. We have made a preliminary purchase price allocation of the acquired assets and liabilities, and approximately \$1.9 million of fixed assets and \$3.7 million of goodwill was recorded with respect to this transaction.

On February 28, 2010, we amended and extended for approximately five years our arrangement with GE Medical Systems under which it has agreed to be responsible for maintenance and repair of a majority of our equipment through 2017. Under this amended contract, we have obtained lower pricing for the maintenance and repair of the majority of our advanced imaging equipment and we will be eligible to earn rebates from purchasing other General Electric products and services, such as medical equipment and information technology. We believe this revised contract will provide us significant cost savings through the term of the agreement.

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

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

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

On April 6, 2010, we completed the Refinancing Transactions. See The Refinancing Transactions.

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

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

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

On August 11, 2010, we completed the acquisition of three imaging centers from the New Jersey operating subsidiary of Health Diagnostics located in Edison, Old Bridge and Green Brook, New Jersey for approximately \$3.5 million. Imaging modalities include MRI, CT, PET/CT, mammography, ultrasound and X-ray.

TABLE OF CONTENTS

**Industry Trends**

Prior to 2007, for services for which we bill Medicare directly, we were paid under the Medicare Physician Fee Schedule, which is updated on an annual basis. Under the Medicare statutory formula, payments under the Physician Fee Schedule would have decreased for the past several years if Congress failed to intervene. For example, for 2008, the fee schedule rates were to be reduced by approximately 10.1%. The Medicare, Medicaid and SCHIP Extension Act of 2007 eliminated the 10.1% reduction for 2008 and increased the annual payment rate update by 0.5%. This increase to the annual Medicare Physician Fee Schedule payment update was effective only for Medicare claims with dates of service between January 1, 2008 and June 30, 2008. Beginning July 1, 2008, under MIPPA, the 0.5% increase was continued for the rest of 2008. In addition, MIPPA established a 1.1% increase to the Medicare Physician Fee Schedule payment update for 2009.

For 2010, CMS projected a rate reduction of 21.2%. On December 19, 2009, President Obama signed into law the Department of Defense Appropriations Act, 2010 which includes a zero percent Medicare physician update through February 28, 2010. This was further extended through March 31, 2010 and later through May 31, 2010 by the Temporary Extension Act of 2010 and the Continuing Extension Act of 2010, signed into law by President Obama on March 2, 2010 and April 15, 2010, respectively. Further action was taken on June 25, 2010, when the Preservation of Access to Care for Medicare Beneficiaries and Pension Relief Act of 2010 was signed into law. Section 101 of Pub. L. 111-192 provides for a 2.2% update to the 2010 Physician Fee Schedule effective for dates of service June 1, 2010 through November 30, 2010. This incremental legislation is designed to delay the 21.2% payment reductions inherent in the statutory payment formula. On July 13, 2010, the proposed Calendar Year 2011 Medicare Physician Fee Schedule regulation was published in the Federal Register. Payments under the Physician Fee Schedule will be reduced in 2011 by 6.1%, in addition to the 21.2% rate reduction that will go into effect if Congress fails to intervene. If implemented, the resulting decrease in payment will adversely impact our revenues and results of operations.

MIPPA also modified the methodology by which the budget neutrality formula was applied to the 2009 physician fee schedule payment rates, resulting in an overall reduction in payment rates for services performed by many specialties, including an estimated 1% reduction for nuclear medicine. The impact of the payment rates on specific companies depends on their service mix. Also with respect to MIPPA, the legislation requires all suppliers that provide the technical component of diagnostic MRI, PET/CT, CT, and nuclear medicine to be accredited by an accreditation organization designated by CMS (which currently include the ACR, the IAC and The Joint Commission) by January 1, 2012. Our MRI, CT, nuclear medicine, ultrasound and mammography facilities are currently accredited by the ACR.

A number of other legislative changes impact our retail business. For example, beginning on January 1, 2007, the DRA imposed caps on Medicare payment rates for certain imaging services furnished in physician's offices and other non-hospital based settings. Under the cap, payments for specified imaging services cannot exceed the hospital outpatient payment rates for those services. The limitation is applicable to the technical components of the diagnostic imaging services only, which is the payment we receive for the services for which we bill directly under the Medicare Physician Fee Schedule. CMS issues on an annual basis the hospital outpatient prospective payment rates, which are used to develop the caps. If the technical component of the service established under the Physician Fee Schedule (without including geographic adjustments) exceeds the hospital outpatient payment amount for the service (also without including geographic adjustments), then the payment is to be reduced. In other words, in those instances where the technical component for the particular service is greater for the non-hospital site, the DRA directs that the hospital outpatient payment rate be substituted for the otherwise applicable Physician Fee Schedule payment rate.

The DRA also codified the reduction in reimbursement for multiple images on contiguous body parts, which was

previously announced by CMS. The DRA mandated payment at 100% of the technical component of the higher priced imaging procedure and 50% for the technical component of each additional imaging procedure for multiple images of contiguous body parts within a family of codes performed in the same session. Initially, CMS announced that it would phase in this reimbursement reduction over a two-year period, to include a 25% reduction for each additional imaging procedure on contiguous body parts in 2006 and an additional 25% reduction in 2007. CMS did not implement the additional 25% reduction scheduled for 2007

TABLE OF CONTENTS

but for services furnished on or after July 1, 2010, the recently approved PPACA requires the full 50% percentage reduction to be implemented as mandated by the DRA.

Regulatory updates to payment rates for which we bill the Medicare program directly are published annually by CMS.

For payments under the Physician Fee Schedule for calendar year 2010, CMS changed the way it calculates components of the Medicare Physician Fee Schedule. First, CMS reduced payment rates for certain diagnostic services using equipment costing more than \$1 million through revisions to usage assumptions from the current 50% usage rate to a 90% usage rate. This change applied to MRI and CT scans. However, for certain diagnostic services performed on or after January 1, 2011, the Reconciliation Act reduces the assumed usage rate for such equipment from CMS's current rate of 90% to a rate of 75%, resulting in an increase in payment rates for such services.

Recent global market and economic conditions have been unprecedented. Concerns about the potential long-term and widespread recession, inflation, energy costs, geopolitical issues, the availability and cost of credit, the United States mortgage market and a declining real estate market in the United States have contributed to increased market volatility and diminished expectations for the United States economy. These conditions, combined with declining business and consumer confidence and increased unemployment, have contributed to unusual volatility. At this time, it is unclear what impact this might have on our future revenues or business.

As a result of these market conditions, the cost and availability of credit has been and may continue to be adversely affected by illiquid credit markets and wider credit spreads. Concern about the stability of the markets generally and the strength of counterparties specifically has led many lenders and institutional investors to reduce, and in some cases, cease to provide funding to borrowers. If market conditions continue, they may limit our ability to timely access the capital markets to meet liquidity needs, resulting in adverse effects on our financial condition and results of operations.



TABLE OF CONTENTS**Results of operations**

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

## RADNET, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended June 30,		Six Months Ended June 30,				Years Ended December 31,		
	2010	2009	2010	2009	2009	2008	2007		
NET REVENUE	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
OPERATING EXPENSES									
Operating expenses	76.4 %	76.0 %	77.8 %	75.9 %	75.9 %	77.0 %	78.0 %		
Depreciation and amortization	10.0 %	10.1 %	10.3 %	10.2 %	10.3 %	10.7 %	10.7 %		
Provision for bad debts	6.1 %	6.4 %	6.1 %	6.3 %	6.2 %	6.2 %	6.5 %		
Loss on sale of equipment	0.0 %	0.2 %	0.1 %	0.1 %	0.1 %	0.1 %	0.0 %		
Severance costs	0.3 %	0.3 %	0.2 %	0.1 %	0.1 %	0.1 %	0.2 %		
Total operating expenses	92.9 %	93.0 %	94.6 %	92.7 %	92.6 %	94.1 %	95.5 %		
INCOME FROM OPERATIONS	7.1 %	7.0 %	5.4 %	7.3 %	7.4 %	5.9 %	4.5 %		
OTHER EXPENSES (INCOME)									
Interest expense	9.2 %	9.6 %	8.6 %	10.1 %	9.4 %	10.4 %	10.5 %		
Loss on extinguishment of debt	7.1 %	0.0 %	3.8 %	0.0 %	0.0 %	0.0 %	0.0 %		
Gain on bargain purchase	0.0 %	-1.1 %	0.0 %	-0.5 %	-0.3 %	.0 %	0.0 %		
Gain from sale of joint venture interests	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	-0.4 %		
Other expenses (income)	0.8 %	0.6 %	0.4 %	0.2 %	0.2 %	0.0 %	0.0 %		
Total other expenses	17.1 %	9.1 %	12.8 %	9.7 %	9.4 %	10.4 %	10.0 %		
LOSS BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF JOINT VENTURES	-10.0 %	-2.1 %	-7.4 %	-2.4 %	-1.9 %	-4.5 %	-5.5 %		
Provision for income taxes	0.1 %	0.0 %	-0.1 %	0.0 %	-0.1 %	0.0 %	-0.1 %		
Equity in earnings of joint ventures	1.4 %	1.9 %	1.5 %	2.0 %	1.6 %	2.0 %	1.4 %		
NET LOSS	-8.4 %	-0.2 %	-6.0 %	-0.4 %	-0.4 %	-2.6 %	-4.1 %		
Net income attributable to noncontrolling interests	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.1 %		
NET LOSS ATTRIBUTABLE TO RADNET, INC. COMMON STOCKHOLDERS	-8.5 %	-0.3 %	-6.0 %	-0.5 %	-0.4 %	-2.6 %	-4.3 %		

**Three months ended June 30, 2010 compared to the three months ended June 30, 2009**

## Net revenue

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

Net revenue, including only those centers which were in operation throughout the second quarters of both 2010 and 2009, decreased \$4.0 million, or 3.1%. This 3.1% decrease is primarily the result of a decline in patient scheduling during the first half of 2010. This comparison excludes revenue contributions from centers that were acquired or divested subsequent to April 1, 2009. For the three months ended June 30, 2010, net revenue from centers that were acquired subsequent to April 1, 2009 and excluded from the above comparison was \$12.5 million. For the three months ended June 30, 2009, net revenue from centers that were acquired subsequent to April 1, 2009 and excluded from the above comparison was \$718,000.

TABLE OF CONTENTS**Operating expenses**

Operating expenses for the three months ended June 30, 2010 increased approximately \$6.5 million, or 6.5%, from \$99.7 million for the three months ended June 30, 2009 to \$106.2 million for the three months ended June 30, 2010.

The following table sets forth our operating expenses for the three months ended June 30, 2010 and 2009 (in thousands):

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

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

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

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

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

*Stock-based compensation*

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

*Building and equipment rental*

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

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

## TABLE OF CONTENTS

from centers that were acquired subsequent to April 1, 2009 and excluded from the above comparison was \$1.2 million. For the three months ended June 30, 2009, building and equipment rental expenses from centers that were acquired subsequent to April 1, 2009 and excluded from the above comparison was \$115,000.

### *Medical supplies*

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

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

### *Depreciation and amortization*

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

### *Provision for bad debts*

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

## **Interest expense**

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

## **Loss on extinguishment of debt**

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

## **Other expenses**

For the three months ended June 30, 2010 we recorded \$1.2 million of other expenses related to fair value adjustments on our interest rate swaps. For the three months ended June 30, 2009 we recorded \$252,000 of other income related to fair value adjustments on our interest rate swaps, offset by \$1.0 million of other expense primarily related to litigation.

43

---

TABLE OF CONTENTS

**Gain on bargain purchase**

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

In accordance with SFAS No. 141(R) codified in FASB 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 for the three months ended June 30, 2009.

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

**Equity in earnings from unconsolidated joint ventures**

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

**Six months ended June 30, 2010 compared to the six months ended June 30, 2009**

**Net revenue**

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

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





TABLE OF CONTENTS**Operating expenses**

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

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

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

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

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

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

*Stock-based compensation*

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

*Building and equipment rental*

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

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

45

---

## TABLE OF CONTENTS

were acquired subsequent to January 1, 2009 and excluded from the above comparison was \$2.0 million. For the six months ended June 30, 2009, building and equipment rental expenses from centers that were acquired subsequent to January 1, 2009 and excluded from the above comparison was \$233,000.

### *Medical supplies*

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

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

### *Depreciation and amortization*

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

### *Provision for bad debts*

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

## **Interest expense**

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

## **Loss on extinguishment of debt**

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

## **Other expenses**

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

46

---

TABLE OF CONTENTS

**Gain on bargain purchase**

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

In accordance with 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 for the six months ended June 30, 2009.

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

**Income tax expense**

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

**Equity in earnings from unconsolidated joint ventures**

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

**Year ended December 31, 2009 compared to the year ended December 31, 2008**

**Net revenue**

Net revenue for the year ended December 31, 2009 was \$524.4 million compared to \$498.8 million for the year ended December 31, 2008, an increase of \$25.6 million, or 5.1%.

Net revenue, including only those centers which were in operation throughout the full fiscal years of both 2009 and 2008, increased \$8.1 million, or 1.8%. This 1.8% increase is mainly due to an increase in procedure volumes. This comparison excludes revenue contributions from centers that were acquired or divested subsequent to January 1, 2008.

For the year ended December 31, 2009, net revenue from centers that were acquired subsequent to January 1, 2008 and excluded from the above comparison was \$71.0 million. For the year ended December 31, 2008, net revenue from centers that were acquired subsequent to January 1, 2008 and excluded from the above comparison was \$47.7 million.

Also excluded was \$5.8 million from centers that were divested subsequent to January 1, 2008.

TABLE OF CONTENTS**Operating expenses**

Operating expenses for the year ended December 31, 2009 increased approximately \$13.5 million, or 3.5%, from \$384.3 million for the year ended December 31, 2008 to \$397.8 million for the year ended December 31, 2009. The following table sets forth our operating expenses for the years ended December 31, 2009 and 2008 (in thousands):

	Years Ended December 31,	
	2009	2008
Salaries and professional reading fees, excluding stock-based compensation	\$215,095	\$210,450
Stock-based compensation	3,607	2,902
Building and equipment rental	43,346	43,478
Medical supplies	32,507	29,848
Other operating expense*	103,198	97,619
Operating expenses	397,753	384,297
Depreciation and amortization	53,800	53,548
Provision for bad debts	32,704	30,832
Loss on sale of equipment, net	523	516
Severance costs	731	335
Total operating expenses	\$485,511	\$469,528

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

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

Salaries and professional reading fees increased \$4.6 million, or 2.2%, to \$215.1 million for the year ended December 31, 2009, compared to \$210.5 million for the year ended December 31, 2008.

Salaries and professional reading fees, including only those centers which were in operation throughout the full fiscal years of both 2009 and 2008, decreased \$1.9 million, or 1.0%. This 1.0% 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 January 1, 2008. For the year ended December 31, 2009, salaries and professional reading fees from centers that were acquired subsequent to January 1, 2008 and excluded from the above comparison was \$26.6 million. For the year ended December 31, 2008, salaries and professional reading fees from centers that were acquired subsequent to January 1, 2008, and excluded from the above comparison was \$17.1 million. Also excluded was \$3.0 million from centers that were divested subsequent to January 1, 2008.

*Stock-based compensation*

Stock-based compensation increased \$705,000, or 24.3%, to \$3.6 million for the year ended December 31, 2009 compared to \$2.9 million for the year ended December 31, 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 decreased \$132,000, or 0.3%, to \$43.4 million for the year ended December 31, 2009, compared to \$43.5 million for the year ended December 31, 2008.

Building and equipment rental expenses, including only those centers which were in operation throughout the full fiscal years of both 2009 and 2008, decreased \$2.4 million, or 6.1%. This 6.1% 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



## TABLE OF CONTENTS

were acquired or divested subsequent to January 1, 2008. For the year ended December 31, 2009, building and equipment rental expenses from centers that were acquired subsequent to January 1, 2008, and excluded from the above comparison, was \$6.2 million. For the year ended December 31, 2008, building and equipment rental expenses from centers that were acquired subsequent to January 1, 2008, and excluded from the above comparison, was \$3.6 million. Also excluded was \$328,000 from centers that were divested subsequent to January 1, 2008.

### *Medical supplies*

Medical supplies expense increased \$2.7 million, or 8.9%, to \$32.5 million for the year ended December 31, 2009, compared to \$29.8 million for the year ended December 31, 2008.

Medical supplies expenses, including only those centers which were in operation throughout the full fiscal years of both 2009 and 2008, increased \$1.3 million, or 6.4%. This 6.4% 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 January 1, 2008. For the year ended December 31, 2009, medical supplies expense from centers that were acquired subsequent to January 1, 2008, and excluded from the above comparison was \$11.5 million. For the year ended December 31, 2008, medical supplies expense from centers that were acquired subsequent to January 1, 2008, and excluded from the above comparison was \$9.6 million. Also excluded from the above comparison was \$500,000 from centers that were divested subsequent to January 1, 2008.

### *Depreciation and amortization expense*

Depreciation and amortization expense increased \$252,000, or 0.4%, to \$53.8 million for the year ended December 31, 2009 when 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 \$1.9 million, or 6.0%, to \$32.7 million, or 6.2% of net revenue, for the year ended December 31, 2009 compared to \$30.8 million, or 6.2% of net revenue, for the year ended December 31, 2008. This increase is in line with the increase in net revenues.

### *Loss on sale of equipment*

Loss on sale of equipment was \$523,000 and \$516,000 for the years ended December 31, 2009 and 2008, respectively. In both years, this loss resulted from the sale of imaging equipment for scrape value upon acquisition of upgraded equipment.

### *Severance costs*

During the year ended December 31, 2009, we recorded severance costs of \$731,000 compared to \$335,000 recorded during the year ended December 31, 2008. In each period, these costs were primarily associated with the integration of Radiologix and other acquired operations.

## **Interest expense**

Interest expense for the year ended December 31, 2009 was \$49.2 million compared to \$51.8 million for the year ended December 31, 2008. The interest expense for the year ended December 31, 2009 includes \$6.1 million of amortization associated with a swap agreement that expired in April 2009 and 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 \$2.7 million. Excluding the \$6.1 million one-time amortization, interest expense for the year ended December

31, 2009 decreased by \$8.7 million when compared to the prior year. This decrease is primarily due to a \$9.7 million decrease in interest expense on our senior debt, partially offset by a \$1.7 million increase in interest expense on our interest rate swaps for the year ended December 31, 2009 as compared to the prior year.

TABLE OF CONTENTS

**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. 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 accounting standards, 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.

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.

**Other expense (income)**

For the year ended December 31, 2009, we recorded \$1.2 million of other expense primarily related to litigation.

**Income tax expense**

For the year ended December 31, 2009 and 2008, we recorded \$443,000 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 year ended December 31, 2009, we recognized equity in earnings from unconsolidated joint ventures of \$8.5 million compared to \$9.8 million for the year ended December 31, 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.

**Year ended December 31, 2008 compared to the year ended December 31, 2007**

## Net revenue

Net revenue for the year ended December 31, 2008 was \$498.8 million compared to \$423.6 million for the year ended December 31, 2007, an increase of \$75.2 million, or 17.5%.

Net revenue, including only those centers which were in operation throughout the full fiscal years of both 2008 and 2007, increased \$27.2 million, or 6.8%. This 6.8% increase is mainly due to an increase in procedure volumes. This comparison excludes revenue contributions from centers that were acquired or divested subsequent to January 1, 2007.

For the year ended December 31, 2008, net revenue from centers that were acquired subsequent to January 1, 2007 and excluded from the above comparison was \$70.0 million. For the year ended December 31, 2007, net revenue from centers that were acquired subsequent to January 1, 2007 and excluded from the above comparison was \$10.6 million.

Also excluded was \$11.4 million from centers that were divested subsequent to January 1, 2007.

TABLE OF CONTENTS**Operating expenses**

Operating expenses for the year ended December 31, 2008 increased approximately \$53.7 million, or 16.3%, from \$330.6 million for the year ended December 31, 2007 to \$384.3 million for the year ended December 31, 2008. The following table sets forth our operating expenses for the years ended December 31, 2008 and 2007 (in thousands):

	Years Ended	
	December 31,	
	2008	2007
Salaries and professional reading fees, excluding stock-based compensation	\$210,450	\$178,573
Stock-based compensation	2,902	3,313
Building and equipment rental	43,478	41,299
General administrative expenses	127,467	107,245
NASDAQ one-time listing fee		120
Operating expenses	384,297	330,550
Depreciation and amortization	53,548	45,281
Provision for bad debts	30,832	27,467
Loss on sale of equipment, net	516	72
Severance costs	335	934
Total operating expenses	\$469,528	\$404,304

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

Salaries and professional reading fees increased \$31.9 million, or 17.9%, to \$210.5 million for the year ended December 31, 2008, compared to \$178.6 million for the year ended December 31, 2007.

Salaries and professional reading fees, including only those centers which were in operation throughout the full fiscal years of both 2008 and 2007, increased \$12.7 million, or 7.1%. This 7.1% increase is primarily due to increased salaries and staffing to support the revenue growth of these existing imaging centers. This comparison excludes contributions from centers that were acquired or divested subsequent to January 1, 2007. For the year ended December 31, 2008, salaries and professional reading fees from centers that were acquired subsequent to January 1, 2007, and excluded from the above comparison was \$25.6 million. For the year ended December 31, 2007, salaries and professional reading fees from centers that were acquired subsequent to January 1, 2007, and excluded from the above comparison was \$3.2 million. Also excluded was \$3.2 million from centers that were divested subsequent to January 1, 2007.

*Stock-based compensation*

Stock-based compensation decreased \$411,000, or 12.4%, to \$2.9 million for the year ended December 31, 2008 compared to \$3.3 million for the year ended December 31, 2007. Share-based compensation for the year ended December 31, 2007, included \$1.7 million of additional stock based compensation expense as a result of the acceleration of vesting of certain warrants.

*Building and equipment rental*

Building and equipment rental expenses increased \$2.2 million, or 5.3%, to \$43.5 million for the year ended December 31, 2008, compared to \$41.3 million for the year ended December 31, 2007.

Building and equipment rental expenses, including only those centers which were in operation throughout the full

fiscal years of both 2008 and 2007, decreased \$1.7 million, or 4.2%. This 4.2% decrease is primarily due to the conversion of certain equipment leases contracts from operating to capital leases. This comparison excludes contributions from centers that were acquired or divested subsequent to January 1, 2007. For the year ended December 31, 2008, building and equipment rental expenses from centers that were acquired subsequent to January 1, 2007, and excluded from the above comparison, was \$6.4 million. For the year ended December 31, 2007, building and

## TABLE OF CONTENTS

equipment rental expenses from centers that were acquired subsequent to January 1, 2007, and excluded from the above comparison, was \$1.2 million. Also excluded was \$1.3 million from centers that were divested subsequent to January 1, 2007.

### *General and administrative expenses*

General and administrative expenses include billing fees, medical supplies, office supplies, repairs and maintenance, insurance, business tax and license, outside services, utilities, marketing, travel and other expenses. Many of these expenses are variable in nature including medical supplies and billing fees, which increase with volume and repairs and maintenance under our GE service agreement as a percentage of net revenue. Overall, general and administrative expenses increased \$20.2 million, or 18.8%, for the year ended December 31, 2008 compared to the previous period. The increase is consistent with our increase in procedure volumes at both existing centers as well as newly acquired centers.

### *Depreciation and amortization expense*

Depreciation and amortization expense increased \$8.3 million, or 18.3%, to \$53.6 million for the year ended December 31, 2008 when compared to the same period last year. The increase is primarily due to property and equipment additions for existing centers and newly acquired centers.

### *Provision for bad debts*

Provision for bad debts increased \$3.3 million, or 12.3%, to \$30.8 million, or 6.2% of net revenue, for the year ended December 31, 2008 compared to \$27.5 million, or 6.4% of net revenue, for the year ended December 31, 2007. The decrease in our provision for bad debts as a percentage of revenue is primarily due to an increase in collection performance and the completion of our billing system implementation which began in the first quarter of 2007.

### *Loss on sale of equipment*

Loss on sale of equipment was \$516,000 and \$72,000 for the years ended December 31, 2008 and 2007, respectively.

### *Severance costs*

During the year ended December 31, 2008, we recorded severance costs of \$335,000 compared to \$934,000 recorded during the year ended December 31, 2007. In each period, these costs were primarily associated with the integration of Radiologix and other acquired operations.

## **Interest expense**

Interest expense for the year ended December 31, 2008 increased approximately \$7.5 million, or 16.9%, from the same period in 2007. The increase is primarily due to the \$60 million increase in Term Loans B & C and increased borrowing on our line of credit. Also included in interest expense for the year ended December 31, 2008 and 2007 is amortization of deferred loan costs of \$2.6 million and \$1.6 million, respectively, as well as realized gains of \$707,000 and realized losses of \$820,000 on our fair value hedges for the years ended December 31, 2008 and 2007, respectively.

## **Income tax expense**

For the years ended December 31, 2008 and 2007, we recorded \$151,000 and \$337,000, respectively, for income tax expense related to taxable income generated in the state of Maryland.

## **Equity in earnings from unconsolidated joint ventures**

For the year ended December 31, 2008, we recognized equity in earnings from unconsolidated joint ventures of \$9.8 million compared to \$5.9 million for the year ended December 31, 2007. This increase is due to our purchase of additional equity interests in certain existing joint ventures as well as the deconsolidation in the fourth quarter of 2007 of a previously consolidated joint venture.

52

---



TABLE OF CONTENTS

## Liquidity and capital resources

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

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

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

- maximizing performance at our existing facilities;
- focusing on profitable contracting;
- expanding MRI, CT and PET applications;
- optimizing operating efficiencies; and
- expanding our networks.

At March 31, 2010, our outstanding indebtedness included a \$242.0 million senior secured term loan B, a \$170.0 million second lien term loan and a \$55.0 million revolving credit facility of which we qualified to borrow, as of March 31, 2010, up to an additional \$30.4 million, with GE Commercial Finance Healthcare Financial Services originally entered into on November 15, 2006 (the "GE Credit Facility").

In connection with the GE Credit Facility, 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 \$270.0 million first lien term and revolving credit facilities 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 described above. The modifications, commonly referred to as "blend and extends", extended the maturity of, and re-priced these two interest rate swaps for an additional 36 months, resulting in an estimated annualized cash interest expense savings of \$2.9 million.

With respect to the \$107 million interest rate swap, on January 28, 2009, we replaced the existing fixed LIBOR rate of 5.02% with a new rate of 3.47% maturing on November 15, 2012. With respect to the \$90 million interest rate swap, on February 5, 2009, we replaced the existing fixed LIBOR rate of 5.03% with a new rate of 3.62% also maturing on November 15, 2012. Both modified interest swaps were designated as cash flow hedges.

As part of these modifications, the negative fair values of the original interest rate swaps, as well as a certain amount of accrued interest associated with the original cash flow hedges were incorporated into the fair values of the new modified cash flow hedges. The related Accumulated Other Comprehensive Loss (AOCL) associated with the

negative fair values of the original cash flow hedges on their dates of modification, which totaled \$6.1 million, was on a straight-line basis to interest expense through November 15, 2009, the maturity date of the original cash flow hedges.

On April 6, 2010 we completed our debt refinancing plan for an aggregate of \$585 million. The debt refinancing plan included the issuance of a \$285 million senior secured term loan due April 6, 2016, a \$100 million senior secured revolving credit facility due April 6, 2015 and \$200 million in aggregate principal amount of senior unsecured notes due April 1, 2018. We used \$412.0 million of the proceeds from the debt

## TABLE OF CONTENTS

restructuring to pay off our prior credit facility and an additional \$1.7 million to settle a call premium associated with our prior credit facilities. As a result of this refinancing, we recorded during the three months ended June 30, 2010 a loss on extinguishment of debt of approximately \$9.9 million which is made up of the \$1.7 million call premium, \$7.6 million write-off of deferred loan costs associated with the prior credit facility, as well as \$600,000 of additional debt settlement costs.

### **New Credit Agreement**

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

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

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

*Guarantees and Collateral.* The obligations under the *New Credit Facilities* are guaranteed by RadNet, Inc., our parent company, all of our direct and indirect wholly owned domestic subsidiaries (excluding joint ventures) and certain affiliated companies. The obligations under the *New Credit Facilities* and the guarantees are secured by a perfected first priority security interest in all of Radnet Management's and the guarantors' tangible and intangible assets, including, but not limited to, pledges of equity interests of Radnet Management and all of our current and future domestic subsidiaries.

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

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

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

## TABLE OF CONTENTS

### **The notes**

The \$200 million in aggregate amount of senior unsecured notes have a coupon of 10.375% and were issued at a price of 98.680%. The notes were issued by Radnet Management and guaranteed jointly and severally on a senior unsecured basis by RadNet, Inc. and all of Radnet Management's current and future wholly owned domestic subsidiaries. The notes were offered and sold in a private placement exempt from registration under the Securities Act to qualified institutional buyers pursuant to Rule 144A and Regulation S under the Securities Act. The notes will mature on April 1, 2018, and bear interest at the rate of 10.375% per year. We will pay interest on the notes on April 1 and October 1, commencing October 1, 2010. The notes are governed under an indenture, with U.S. Bank National Association as trustee. See Description of notes.

Our ability to generate sufficient cash flow from operations to make payments on our debt and other contractual obligations will depend on our future financial performance. A range of economic, competitive, regulatory, legislative and business factors, many of which are outside of our control, will affect our financial performance. Although no assurance can be given, taking these factors into account, including our historical experience, we believe that through implementing our strategic plans, we will obtain sufficient cash to satisfy our obligations as they become due in the next 12 months.

### **Sources and uses of cash**

Cash provided by operating activities was \$22.5 million for the six months ended June 30, 2010 and \$32.9 million for the six months ended June 30, 2009. Cash provided by operating activities was \$76.6 million, \$45.4 million and \$25.3 million for the years ended December 31, 2009, 2008 and 2007, respectively.

Cash used in investing activities was \$50.6 million and \$19.2 million for the six months ended June 30, 2010 and 2009, respectively. For the six months ended June 30, 2010, we purchased property and equipment for approximately \$20.8 million and acquired the assets and businesses of additional imaging facilities for approximately \$29.8 million. Cash used in investing activities was \$36.3 million, \$56.0 million and \$45.9 million for the years ended December 31, 2009, 2008 and 2007, respectively. For the year ended December 31, 2009, we purchased property and equipment for approximately \$30.8 million and acquired the assets and businesses of additional imaging facilities for approximately \$6.1 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.

The cash provided by financing activities was \$38.5 million for the six months ended June 30, 2010 and cash used in financing activities was \$13.7 million for the six months ended June 30, 2009. The cash provided by financing activities for the six months ended June 30, 2010 was primarily related to the Refinancing Transactions. The cash used in financing activities was \$30.2 million for the year ended December 31, 2009, compared to cash provided by financing activities of \$10.6 million and \$17.3 million for the years ended December 31, 2008 and 2007, respectively. The cash used in financing activities for the year ended December 31, 2009, was related to payments we made toward our term loans, capital leases and line of credit balances, as well as \$4.7 million of cash payments, net of cash receipts, related to our modified cash flow hedges.

### **Contractual commitments**

As of June 30, 2010, our future obligations for notes payable, equipment under capital leases, lines of credit, equipment and building operating leases and purchase and other contractual obligations for the next five years and thereafter include (dollars in thousands):

Edgar Filing: IDE IMAGING PARTNERS INC - Form S-4

	2010	2011	2012	2013	2014	Thereafter	Total
Notes payable <sup>(1)</sup>	\$ 3,625	\$ 7,558	\$ 4,322	\$ 3,245	\$ 2,850	\$ 471,463	\$ 493,062
Capital leases <sup>(2)</sup>	7,109	9,531	4,250	818	40,558		21,750
Operating leases <sup>(3)</sup>	18,505	33,592	29,231	24,906	19,432	83,605	209,279
Total	\$ 29,239	\$ 50,680	\$ 37,803	\$ 28,969	\$ 22,323	\$ 555,068	\$ 724,083

(1) Includes variable rate debt for which the contractual obligation was estimated using the applicable rate as of June 30, 2010.

55

---

## TABLE OF CONTENTS

(2) Includes interest component of capital lease obligations.

(3) Includes all existing options to extend lease terms that are reasonably assured to be exercised.

We have an arrangement with GE Medical Systems under which it has agreed to be responsible for the maintenance and repair of a majority of our equipment for a fee that is based upon a percentage of our revenue, subject to a minimum payment. Net revenue is reduced by the provision for bad debts, mobile PET revenue and other professional reading service revenue to obtain adjusted net revenue. On February 28, 2010, we amended and extended for approximately five years our arrangement with GE Medical Systems. See Management's Discussion and Analysis of Financial Condition and Results of Operations Recent Developments.

## **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.

## **Critical accounting policies**

### **Use of estimates**

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

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

our disclosure of contingent assets and liabilities at the dates of the financial statements; and  
our reported amounts of net revenue and expenses in our consolidated statements of operations during the reporting periods.

These estimates involve judgments with respect to numerous factors that are difficult to predict and are beyond management's control. As a result, actual amounts could differ materially from these estimates.

The SEC defines critical accounting estimates as those that are both most important to the portrayal of a company's financial condition and results of operations and require management's most difficult, subjective or complex judgment,

often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. In Note 2 to our consolidated financial statements, we discuss our significant accounting policies, including those that do not require management to make difficult, subjective or complex judgments or estimates. The most significant areas involving management's judgments and estimates are described below.

56

---



## TABLE OF CONTENTS

### **Revenue recognition**

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

### **Accounts receivable**

Substantially all of our accounts receivable are due under fee-for-service contracts from third party payors, such as insurance companies and government-sponsored healthcare programs, or directly from patients. Services are generally provided pursuant to one-year contracts with healthcare providers. Receivables generally are collected within industry norms for third-party payors. We continuously monitor collections from our payors and maintain an allowance for bad debts based upon specific payor collection issues that we have identified and our historical experience.

### **Depreciation and amortization of long-lived assets**

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

### **Deferred tax assets**

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

### **Valuation of goodwill and long-lived assets**

Goodwill at June 30, 2010 totaled \$124.2 million. Goodwill is recorded as a result of business combinations.

Management evaluates goodwill, at a minimum, on an annual basis and whenever events and changes in circumstances suggest that the carrying amount may not be recoverable in accordance with Statement of Financial Accounting Standards, or SFAS, No. 142, *Goodwill and Other Intangible Assets*, codified in FASB ASC Topic 350.

Impairment of goodwill is tested at the reporting unit level by comparing the reporting unit's carrying amount, including goodwill, to the fair value of the reporting unit. The fair value of a reporting unit is estimated using a combination of the income or discounted cash flows approach and the market approach, which uses comparable market data. If the carrying amount of the reporting unit exceeds its fair value, goodwill is considered impaired and a second step is performed to measure the amount of impairment loss, if any. We tested goodwill for impairment on

October 1, 2009. Based on our review, we noted no impairment related to goodwill as of October 1, 2009. However, if estimates or the related assumptions change in the future, we may be required to record impairment charges to reduce the carrying amount of goodwill.

We evaluate our long-lived assets (property and equipment) and definite-lived intangibles for impairment whenever indicators of impairment exist. The accounting standards require that if the sum of the undiscounted expected future cash flows from a long-lived asset or definite-lived intangible is less than the carrying value of that asset, an asset impairment charge must be recognized. The amount of the impairment charge is calculated as the excess of the asset's carrying value over its fair value, which generally represents the discounted future cash flows from that asset or in the case of assets we expect to sell, at fair value less costs to sell. No indicators of impairment were identified with respect to our long-lived assets as of June 30, 2010.

TABLE OF CONTENTS

**Derivative financial instruments**

We hold derivative financial instruments for the purpose of hedging the risks of certain identifiable and anticipated transactions. In general, the types of risks hedged are those relating to the variability of cash flows caused by movements in interest rates. 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, 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.

**Facility acquisitions**

On January 1, 2009, we adopted the provisions of SFAS No. 141(R), *Business Combinations*, codified in FASB ASC Topic 805. ASC Topic 805 changed how our business acquisitions are accounted for and impacts our financial statements at the acquisition date and in subsequent periods. Pursuant to ASC Topic 805, we are required to recognize all of the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value, with limited exceptions, and all transaction related costs are expensed. Subsequent changes, if any, to the acquisition-date fair value that are the result of facts and circumstances that did not exist as of the acquisition date will be recognized as part of our on-going operations. In addition, ASC Topic 805 impacts our goodwill impairment test associated with acquisitions. We applied the provisions of ASC Topic 805 to the facility acquisitions subsequent to January 1, 2009 as discussed below.

On August 11, 2010, we completed the acquisition of three imaging centers from the New Jersey operating subsidiary of Health Diagnostics located in Edison, Old Bridge and Green Brook, New Jersey for approximately \$3.5 million. Imaging modalities include MRI, CT, PET/CT, mammography, ultrasound and X-ray.

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

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

On April 30, 2010, we acquired three multi-modality facilities from Sonix Medical Resources, Inc. through a bankruptcy proceeding in New York for approximately \$2.3 million in cash. The facilities located in Brooklyn, New

York, Chatham, New Jersey and Haddon Heights, New Jersey operate a combination of MRI, CT, mammography, ultrasound, fluoroscopy, X-ray and related modalities. We have made a preliminary purchase price allocation of the acquired assets and assumed liabilities and approximately \$1.4 million of fixed assets and \$900,000 of goodwill was recorded with respect to this transaction.

On April 1, 2010, we completed the acquisition of Truxtun Medical Group in Bakersfield, California for approximately \$20.3 million in cash and the issuance of 375,000 shares of RadNet, Inc. common stock valued at approximately \$1.2 million on the date of acquisition. Truxtun operates four multi-modality facilities in Bakersfield, a Metropolitan Statistical Area with a population exceeding 800,000 residents in Kern County,

TABLE OF CONTENTS

California. Truxtun provides a broad range of services including MRI, CT, PET/CT, mammography, nuclear medicine, fluoroscopy, ultrasound, X-ray and related procedures. We have made a preliminary purchase price allocation of the acquired assets and assumed liabilities and approximately \$2.4 million of working capital, \$6.3 million of fixed assets, \$150,000 of other intangible assets related to covenant not to compete contracts, and \$12.7 million of goodwill was recorded with respect to this transaction.

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

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

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

On October 1, 2009, we completed the acquisition of the imaging assets of Chesapeake Urology Associates in Baltimore, Maryland for approximately \$950,000. Chesapeake Urology operated CT scanners in three locations in the greater Baltimore area. We have made a purchase price allocation of the acquired assets and assumed liabilities, and approximately \$650,000 of fixed assets, \$275,000 of covenant not to compete contracts and \$19,000 of goodwill were recorded with respect to this transaction.

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 our common stock valued at approximately \$129,000 on the date of acquisition. 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 consolidated the Ridgewood Diagnostics and Unity Hospital operations into one facility during 2010. We have made a purchase price allocation of the acquired assets and assumed liabilities, and approximately \$92,000 of fixed assets, \$150,000 of covenant not to compete contracts and \$1.1 million of goodwill were recorded with respect to these transactions.

On June 12, 2009, we acquired the assets and business of nine imaging centers located in New Jersey from a single owner 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 purchase price allocation of the acquired assets and assumed liabilities associated with the remaining eight centers at their respective fair values.

In accordance with accounting standards, 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.

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

59

---

TABLE OF CONTENTS

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 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.

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

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

On October 31, 2008, we acquired the assets and business of Middletown Imaging in Middletown, Delaware for \$210,000 in cash and the assumption of capital lease debt of \$1.2 million. We allocated the purchase price to the acquired assets and assumed liabilities. Approximately \$530,000 of goodwill was recorded with respect to this transaction.

On August 15, 2008, we acquired the women's imaging practice of Parvis Gamagami, M.D., Inc. in Van Nuys, California for \$600,000. Upon acquisition, we relocated the practice to a nearby center we recently acquired from InSight Health in Encino, CA. We rebranded the InSight center as the Encino Breast Care Center, and focused it on Digital Mammography, Ultrasound, MRI and other modalities pertaining to women's health. We have allocated the full purchase price of \$600,000 to goodwill.

On July 23, 2008, we acquired the assets and business of NeuroSciences Imaging Center in Newark, Delaware for \$4.5 million in cash. The center, which performs MRI, CT, Bone Density, X-ray, Fluoroscopy and other specialized procedures, is located in a highly specialized medical complex called the Neuroscience and Surgery Institute of Delaware. The acquisition complements our recent purchase of the Papastavros Associates Imaging centers completed in March, 2008. We made a purchase price allocation of the acquired assets and assumed liabilities, and approximately \$2.6 million of goodwill was recorded with respect to this transaction.

On June 18, 2008, we acquired the assets and business of Ellicott Open MRI for the assumption of approximately \$181,000 of capital lease debt.

On June 2, 2008, we acquired the assets and business of Simi Valley Advanced Medical, a Southern California based multi-modality imaging center, for the assumption of capital lease debt of \$1.7 million. We allocated the purchase price to the acquired assets and assumed liabilities, and approximately \$313,000 of goodwill was recorded with respect to this transaction.

On April 15, 2008, we acquired the net assets of five Los Angeles area imaging centers from InSight Health Corp. We completed the purchase of a sixth center in Van Nuys, California from InSight Health Corp. on June 2, 2008. The total purchase price for the six centers was \$8.5 million in cash. The centers provide a combination of imaging modalities, including MRI, CT, X-ray, Ultrasound and Mammography. We allocated the purchase price to the acquired assets and

assumed liabilities, and approximately \$5.6 million of goodwill was recorded with respect to this transaction.

On April 1, 2008, we acquired the net assets and business of BreastLink Medical Group, Inc., a prominent Southern California breast medical oncology business and a leading breast surgery business, for the assumption of approximately \$4.0 million of accrued liabilities and capital lease obligations. We allocated the purchase price to the acquired assets and assumed liabilities, and approximately \$2.1 million of goodwill was recorded with respect to this transaction.



TABLE OF CONTENTS

On March 12, 2008, we acquired the net assets and business of Papastavros Associates Medical Imaging for \$9.0 million in cash and the assumption of capital leases of \$337,000. Founded in 1958, Papastavros Associates Medical Imaging is one of the largest and most established outpatient imaging practices in Delaware. The 12 Papastavros centers offer a combination of MRI, CT, PET, nuclear medicine, mammography, bone densitometry, fluoroscopy, ultrasound and X-ray. We allocated the purchase price to the acquired assets and assumed liabilities, and approximately \$3.6 million of goodwill, and \$1.2 million for covenants not to compete, were recorded with respect to this transaction.

On February 1, 2008, we acquired the net assets and business of The Rolling Oaks Imaging Group, located in Westlake and Thousand Oaks, California, for \$6.0 million in cash and the assumption of capital leases of \$2.7 million. The practice consists of two centers, one of which is a dedicated women's center. The centers are multimodality and include a combination of MRI, CT, PET/CT, mammography, ultrasound and X-ray. The centers are positioned in the community as high-end, high-quality imaging facilities that employ state-of-the-art technology, including 3 Tesla MRI and 64 slice CT units. The facilities have been fixtures in the Westlake/Thousand Oaks market since 2003. We allocated the purchase price to the acquired assets and assumed liabilities, and approximately \$5.6 million of goodwill was recorded with respect to this transaction.

On October 9, 2007, we acquired the assets and business of Liberty Pacific Imaging located in Encino, California for \$2.8 million in cash. The center operates a successful MRI practice utilizing a 3T MRI unit, the strongest magnet strength commercially available at this time. The center was founded in 2003. The acquisition allows us to consolidate a portion of our Encino/Tarzana MRI volume onto the existing Liberty Pacific scanner. This consolidation allows us to move our existing 3T MRI unit in that market to our Squadron facility in Rockland County, New York. Approximately \$1.1 million of goodwill was recorded with respect to this transaction. Also, \$200,000 was recorded for the fair value of a covenant not to compete contract.

In September 2007, we acquired the assets and business of three facilities comprising Valley Imaging Center, Inc. located in Victorville, California for \$3.3 million in cash plus the assumption of approximately \$866,000 of debt. The acquired centers offer a combination of MRI, CT, X-ray, Mammography, Fluoroscopy and Ultrasound. The physician who provided the interpretive radiology services to these three locations joined BRMG. The leased facilities associated with these centers includes a total monthly rental of approximately \$18,000. Approximately \$3.0 million of goodwill was recorded with respect to this transaction. Also, \$150,000 was recorded for the fair value of a covenant not to compete contract.

In September 2007, we acquired the assets and business of Walnut Creek Open MRI located in Walnut Creek, California for \$225,000. The center provides MRI services. The leased facility associated with this center includes a monthly rental of approximately \$6,800 per month. Approximately \$50,000 of goodwill was recorded with respect to this transaction.

In July 2007, we acquired the assets and business of Borg Imaging Group located in Rochester, New York for \$11.6 million in cash plus the assumption of approximately \$2.4 million of debt. Borg was the owner and operator of six imaging centers, five of which are multimodality, offering a combination of MRI, CT, X-ray, Mammography, Fluoroscopy and Ultrasound. After combining the Borg centers with RadNet's existing centers in Rochester, New York, RadNet has a total of 11 imaging centers in Rochester. The leased facilities associated with these centers include a total monthly rental of approximately \$71,000 per month. Approximately \$8.9 million of goodwill was recorded with respect to this transaction. Also, \$1.4 million was recorded for the fair value of covenant not to compete contracts.

Edgar Filing: IDE IMAGING PARTNERS INC - Form S-4

In March 2007, we acquired the assets and business of Rockville Open MRI, located in Rockville, Maryland, for \$540,000 in cash and the assumption of a capital lease of \$1.1 million. The center provides MRI services. The center is 3,500 square feet with a monthly rental of approximately \$8,400 per month. Approximately \$365,000 of goodwill was recorded with respect to this transaction.

On November 15, 2006, we completed the acquisition of Radiologix, Inc. Radiologix, a Delaware corporation, then employing approximately 2,200 people through its subsidiaries, was a national provider of diagnostic imaging services through the ownership and operation of freestanding, outpatient diagnostic imaging centers. Radiologix owned, operated and maintained equipment in 69 locations, with imaging centers

## TABLE OF CONTENTS

in seven states, including primary operations in the Mid-Atlantic; the Bay Area, California; the Treasure Coast area, Florida; Northeast, Kansas; and the Finger Lakes (Rochester) and Hudson Valley areas of New York State.

### **Recent accounting standards**

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* (SFAS 141(R)), which replaces SFAS No. 141. SFAS 141(R) (codified in FASB ASC Topic 805, *Business Combinations*) introduces significant changes in the accounting for and reporting of business acquisitions. ASC Topic 805 changes how business acquisitions are accounted for and will impact financial statements at the acquisition date and in subsequent periods. Pursuant to ASC Topic 805, an acquiring entity is required to recognize all of the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value, with limited exceptions, and all transaction related costs are expensed. Subsequent changes, if any, to the acquisition-date fair value that are the result of facts and circumstances that did not exist as of the acquisition date will be recognized as part of on-going operations. In addition, ASC Topic 805 will have an impact on the goodwill impairment test associated with acquisitions. The provisions of ASC Topic 805 are effective for business combinations for which the acquisition date is on or after January 1, 2009. The Company applied the provisions of ASC Topic 805 to the facility acquisitions subsequent to January 1, 2009 as discussed in Note 3.

SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51*, codified in FASB ASC Topic 810, is designed to improve the relevance, comparability, and transparency of financial information provided to investors by requiring all entities to report minority interests in subsidiaries in the same way as equity in the consolidated financial statements. Moreover, ASC Topic 810 eliminates the diversity that accounting for transactions between an entity and minority interests by requiring they be treated as equity transactions. The Company adopted the provisions of ASC Topic 810 on January 1, 2009. Such provisions are applied prospectively except for the presentation and disclosure requirements which have been applied retrospectively for all periods presented. Accordingly, we have reclassified minority interests as a component of equity deficit and renamed this item Non-controlling interests on our consolidated balance sheets at December 31, 2009 and 2008. Additionally, our net loss for the years ended December 31, 2009, 2008 and 2007 have been allocated between RadNet, Inc.'s common stockholders and noncontrolling interests.

In May 2009, the FASB issued Statement No. 165, *Subsequent Events*, codified in FASB ASC Topic 855, which establishes general standards of accounting for, and requires disclosure of, events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The Company adopted the provisions of ASC Topic 855 for the quarter ended September 30, 2009. The adoption of these provisions did not have a material effect on the Company's consolidated financial statements.

In September 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 SEC under authority of federal securities laws continue to be additional sources of authoritative GAAP for SEC registrants.

In December 2009, the FASB issued ASU 2009-17, *Consolidations (Topic 810) Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities*. ASU 2009-17 changes how a reporting entity determines when an entity that is insufficiently capitalized or is not controller through voting (or similar rights) should

be consolidated. ASU 2009-17 also requires a reporting entity to provide additional disclosures about its involvement with variable interest entities and any significant changes in risk exposure due to that involvement. ASU 2009-17 is effective at the start of a reporting entity's first fiscal year beginning after November 15, 2009, or January 1, 2010, for a calendar year entity. Early adoption is not permitted. We do not expect that the adoption of ASU 2009-17 will have a material impact on our financial position, results of operations or cash flows.

TABLE OF CONTENTS

In January 2010, the FASB issued authoritative guidance intended to improve disclosures about fair value measurements. The guidance requires entities to disclose significant transfers in and out of fair value hierarchy levels and the reasons for the transfers. Additionally, the guidance clarifies that a reporting entity should provide fair value measurements for each class of assets and liabilities and disclose the inputs and valuation techniques used for fair value measurements using significant other observable inputs (Level 2) and significant unobservable inputs (Level 3).

We maintain interest rate swaps which are required to be recorded at fair value on a recurring basis.

TABLE OF CONTENTS

## **BUSINESS**

### **Business overview**

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

We seek to develop leading positions in regional markets in order to leverage operational efficiencies. Our scale and density within selected geographies provides close, long-term relationships with key payors, radiology groups and referring physicians. Each of our facility managers is responsible for managing relationships with local physicians and payors, meeting our standards of patient service and maintaining profitability. We provide corporate training programs, standardized policies and procedures and sharing of best practices among the physicians in our regional networks.

We derive substantially all of our revenue, directly or indirectly, from fees charged for the diagnostic imaging services performed at our facilities. For the year ended December 31, 2009, we performed 3,174,006 diagnostic imaging procedures and generated net revenue from continuing operations of \$524.4 million. Additional information concerning RadNet, Inc., including our consolidated subsidiaries, for each of the years ended December 31, 2009, December 31, 2008 and December 31, 2007 is included in the consolidated financial statements and notes thereto in this prospectus.

### **History of our business**

RadNet, Inc. was originally incorporated in the State of New York in 1985 and we have been continuously engaged in the medical imaging business since that time.

On November 15, 2006, we completed the acquisition of Radiologix, Inc. Radiologix, a Delaware corporation, then employing approximately 2,200 people, through its subsidiaries, was a national provider of diagnostic imaging services through the ownership and operation of freestanding, outpatient diagnostic imaging centers. Radiologix owned, operated and maintained equipment in 69 locations, with imaging centers

## TABLE OF CONTENTS

in seven states, including primary operations in the Mid-Atlantic; the Bay-Area, California; the Treasure Coast area, Florida; Northeast Kansas; and the Finger Lakes (Rochester) and Hudson Valley areas of New York State. Under the terms of the acquisition agreement, Radiologix stockholders received aggregate consideration of 11,310,950 shares (after giving effect to the one-for-two reverse stock split effected in November 2006) of our common stock and \$42,950,000 in cash. We financed the transaction and refinanced substantially all of our outstanding debt with a \$405 million senior secured credit facility with GE Commercial Healthcare Financial Services.

Since that time we have continued to develop our medical imaging business through a combination of organic growth and acquisitions. For a discussion of acquisitions and dispositions of facilities, see Management's Discussion and Analysis and Results of Operations Facility Acquisitions.

On September 3, 2008, RadNet, Inc. reincorporated from New York into Delaware and has operated as a Delaware corporation since that time. Radnet Management, Inc. is incorporated in California.

## **Company website**

We maintain a website at [www.radnet.com](http://www.radnet.com). We make available, free of charge, on our website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports as soon as is reasonably practicable after the material is electronically filed with the SEC. References to our website addressed in this report are provided as a convenience and do not constitute, or should not be viewed as, an incorporation by reference of the information contained on, or available through, the website. Therefore, such information should not be considered part of this report.

## **Industry overview**

Diagnostic imaging involves the use of non-invasive procedures to generate representations of internal anatomy and function that can be recorded on film or digitized for display on a video monitor. Diagnostic imaging procedures facilitate the early diagnosis and treatment of diseases and disorders and may reduce unnecessary invasive procedures, often minimizing the cost and amount of care for patients. Diagnostic imaging procedures include MRI, CT, PET, nuclear medicine, ultrasound, mammography, X-ray and fluoroscopy. We estimate that the national imaging market in the United States is \$100 billion annually, with projected mid-single digit growth for MRI, CT and PET/CT driven by the aging of the U.S. population, wider physician and payor acceptance for imaging technologies, and greater consumer and physician awareness of diagnostic screening capabilities.

While general X-ray remains the most commonly performed diagnostic imaging procedure, the fastest growing and higher margin procedures are MRI, CT and PET. The rapid growth in PET scans is attributable to the increasing recognition of the efficacy of PET scans in the diagnosis and monitoring of cancer. The number of MRI and CT scans continues to grow due to their wider acceptance by physicians and payors, an increasing number of applications for their use and a general increase in demand due to the aging population in the United States.

## **Industry trends**

We believe the diagnostic imaging services industry will continue to grow as a result of a number of factors, including the following:

## **Escalating demand for healthcare services from an aging population**

Persons over the age of 65 comprise one of the fastest growing segments of the population in the United States. According to the United States Census Bureau, this group is expected to increase as much as 33% from 2010 to 2020. Because diagnostic imaging use tends to increase as a person ages, we believe the aging population will generate more demand for diagnostic imaging procedures.

## **New effective applications for diagnostic imaging technology**

New technological developments are expected to extend the clinical uses of diagnostic imaging technology and increase the number of scans performed. Recent technological advancements include:

MRI spectroscopy, which can differentiate malignant from benign lesions;

65

---



## TABLE OF CONTENTS

MRI angiography, which can produce three-dimensional images of body parts and assess the status of blood vessels; enhancements in teleradiology systems, which permit the digital transmission of radiological images from one location to another for interpretation by radiologists at remote locations; and the development of combined PET/CT scanners, which combine the technology from PET and CT to create a powerful diagnostic imaging system.

Additional improvements in imaging technologies, contrast agents and scan capabilities are leading to new non-invasive methods of diagnosing blockages in the heart's vital coronary arteries, liver metastases, pelvic diseases and vascular abnormalities without exploratory surgery. We believe that the use of the diagnostic capabilities of MRI and other imaging services will continue to increase because they are cost-effective, time-efficient and non-invasive, as compared to alternative procedures, including surgery, and that newer technologies and future technological advancements will further increase the use of imaging services. At the same time, the industry has increasingly used upgrades to existing equipment to expand applications, extend the useful life of existing equipment, improve image quality, reduce image acquisition time and increase the volume of scans that can be performed. We believe this trend toward equipment upgrades rather than equipment replacements will continue, as we do not foresee new imaging technologies on the near-term horizon that will displace MRI, CT or PET as the principal advanced diagnostic imaging modalities.

### **Wider physician and payor acceptance of the use of imaging**

During the last 30 years, there has been a major effort undertaken by the medical and scientific communities to develop higher quality, cost-effective diagnostic imaging technologies and to minimize the risks associated with the application of these technologies. The thrust of product development during this period has largely been to reduce the hazards associated with conventional X-ray and nuclear medicine techniques and to develop new, harmless imaging technologies. As a result, the use of advanced diagnostic imaging modalities, such as MRI, CT and PET, which provide superior image quality compared to other diagnostic imaging technologies, has increased rapidly in recent years. These advanced modalities allow physicians to diagnose a wide variety of diseases and injuries quickly and accurately without exploratory surgery or other surgical or invasive procedures, which are usually more expensive, involve greater risk to patients and result in longer rehabilitation time. Because advanced imaging systems are increasingly seen as a tool for reducing long-term healthcare costs, they are gaining wider acceptance among payors.

### **Greater consumer awareness of and demand for preventive diagnostic screening**

Diagnostic imaging, such as elective full-body scans, is increasingly being used as a screening tool for preventive care procedures. Consumer awareness of diagnostic imaging as a less invasive and preventive screening method has added to the growth in diagnostic imaging procedures. We believe that further technological advancements allowing for early diagnosis of diseases and disorders using less invasive procedures will create additional demand for diagnostic imaging.

### **Diagnostic imaging settings**

Diagnostic imaging services are typically provided in one of the following settings:

## **Fixed-site, freestanding outpatient diagnostic facilities**

These facilities range from single-modality to multi-modality facilities and are generally not owned by hospitals or clinics. These facilities depend upon physician referrals for their patients and generally do not maintain dedicated, contractual relationships with hospitals or clinics. In fact, these facilities may compete with hospitals or clinics that have their own imaging systems to provide services to these patients. These facilities bill third-party payors, such as managed care organizations, insurance companies, Medicare or Medicaid. All of our facilities are in this category.

## **Hospitals**

Many hospitals provide both inpatient and outpatient diagnostic imaging services, typically on site. These inpatient and outpatient centers are owned and operated by the hospital or clinic, or jointly by both, and are

## TABLE OF CONTENTS

primarily used by patients of the hospital or clinic. The hospital or clinic bills third-party payors, such as managed care organizations, insurance companies, Medicare or Medicaid.

While many hospitals own or lease their own equipment, certain hospitals provide these services by contracting with providers of mobile imaging equipment. Using specially designed trailers, mobile imaging service providers transport imaging equipment and provide services to hospitals and clinics on a part-time or full-time basis, thus allowing small to mid-size hospitals and clinics that do not have the patient demand to justify fixed on-site access to advanced diagnostic imaging technology. Diagnostic imaging providers contract directly with the hospital or clinic and are typically reimbursed directly by them.

## **Diagnostic imaging modalities**

The principal diagnostic imaging modalities we use at our facilities are:

### **MRI**

MRI has become widely accepted as the standard diagnostic tool for a wide and fast-growing variety of clinical applications for soft tissue anatomy, such as those found in the brain, spinal cord and interior ligaments of body joints such as the knee. MRI uses a strong magnetic field in conjunction with low energy electromagnetic waves that are processed by a computer to produce high-resolution, three-dimensional, cross-sectional images of body tissue, including the brain, spine, abdomen, heart and extremities. A typical MRI examination takes from 20 to 45 minutes. MRI systems can have either open or closed designs, routinely have magnetic field strength of 0.2 Tesla to 3.0 Tesla and are priced in the range of \$0.6 million to \$2.5 million. As of June 30, 2010, we had 147MRI systems in operation.

### **CT**

CT provides higher resolution images than conventional X-rays, but generally not as well defined as those produced by MRI. CT uses a computer to direct the movement of an X-ray tube to produce multiple cross-sectional images of a particular organ or area of the body. CT is used to detect tumors and other conditions affecting bones and internal organs. It is also used to detect the occurrence of strokes, hemorrhages and infections. A typical CT examination takes from 15 to 45 minutes. CT systems are priced in the range of \$0.3 million to \$1.2 million. As of June 30, 2010, we had 86 CT systems in operation.

### **PET**

PET scanning involves the administration of a radiopharmaceutical agent with a positron-emitting isotope and the measurement of the distribution of that isotope to create images for diagnostic purposes. PET scans provide the capability to determine how metabolic activity impacts other aspects of physiology in the disease process by correlating the reading for the PET with other tools such as CT or MRI. PET technology has been found highly effective and appropriate in certain clinical circumstances for the detection and assessment of tumors throughout the body, the evaluation of some cardiac conditions and the assessment of epilepsy seizure sites. The information provided by PET technology often obviates the need to perform further highly invasive or diagnostic surgical procedures. PET systems are priced in the range of \$0.8 million to \$2.5 million. In addition, we employ combined PET/CT systems that blend the PET and CT imaging modalities into one scanner. These combined systems are priced in the range of \$1.1 million to \$2.8 million. As of June 30, 2010, we had 33 PET or combination PET/CT systems in operation.

## **Nuclear medicine**

Nuclear medicine uses short-lived radioactive isotopes that release small amounts of radiation that can be recorded by a gamma camera and processed by a computer to produce an image of various anatomical structures or to assess the function of various organs such as the heart, kidneys, thyroid and bones. Nuclear medicine is used primarily to study anatomic and metabolic functions. Nuclear medicine systems are priced in the range of \$300,000 to \$400,000. As of June 30, 2010, we had 42 nuclear medicine systems in operation.

## **X-ray**

X-rays use roentgen rays to penetrate the body and record images of organs and structures on film. Digital X-ray systems add computer image processing capability to traditional X-ray images, which provides

## TABLE OF CONTENTS

faster transmission of images with a higher resolution and the capability to store images more cost-effectively. X-ray systems are priced in the range of \$95,000 to \$440,000. As of June 30, 2010, we had 157 X-ray systems in operation.

### **Ultrasound**

Ultrasound imaging uses sound waves and their echoes to visualize and locate internal organs. It is particularly useful in viewing soft tissues that do not X-ray well. Ultrasound is used in pregnancy to avoid X-ray exposure as well as in gynecological, urologic, vascular, cardiac and breast applications. Ultrasound systems are priced in the range of \$90,000 to \$250,000. As of June 30, 2010, we had 273 ultrasound systems in operation.

### **Mammography**

Mammography is a specialized form of radiology using low dosage X-rays to visualize breast tissue and is the primary screening tool for breast cancer. Mammography procedures and related services assist in the diagnosis of and treatment planning for breast cancer. Analog mammography systems are priced in the range of \$70,000 to \$100,000, and digital mammography systems are priced in the range of \$250,000 to \$400,000. As of June 30, 2010, we had 131 mammography systems in operation, 120 of which are digital mammography systems.

### **Fluoroscopy**

Fluoroscopy uses ionizing radiation combined with a video viewing system for real time monitoring of organs. Fluoroscopy systems are priced in the range of \$100,000 to \$400,000. As of June 30, 2010, we had 93 fluoroscopy systems in operation.

## **Our competitive strengths**

### **Our position as the largest provider of freestanding, fixed-site outpatient diagnostic imaging services in the United States, based on number of centers and revenue**

As of June 30, 2010, we operated 191 centers in California, Delaware, Maryland, New Jersey, Florida, Kansas and New York. Our size and scale allow us to achieve operating, sourcing and administrative efficiencies, including equipment and medical supply sourcing savings and favorable maintenance contracts from equipment manufacturers and other suppliers. Our specific knowledge of our geographic markets drives strong relationships with key payors, radiology groups and referring physicians within our markets.

### **Our comprehensive multi-modality diagnostic imaging offering**

The vast majority of our centers offer multi-modality procedures, driving strong relationships with referring physicians and payors in our markets and a diversified revenue base. At each of our multi-modality facilities, we offer patients and referring physicians one location to serve their needs for multiple procedures. Furthermore, we have complemented many of our multi-modality sites with single-modality sites to accommodate overflow and to provide a full range of services within a local area consistent with demand. This prevents multiple patient visits or unnecessary travel between facilities, thereby increasing patient throughput and decreasing costs and time delays. Our revenue is generated by a broad mix of modalities. We believe our multi-modality strategy lessens our exposure to

reimbursement changes in any specific modality.

TABLE OF CONTENTS

## **2009 Net Revenue by Modality**

## **2009 Scan Volume by Modality**

### **Our facility density in many highly populated areas of the United States**

The strategic organization of our diagnostic imaging facilities into regional networks concentrated in major population centers in seven states offers unique benefits to our patients, our referring physicians, our payors and us. We are able to increase the convenience of our services to patients by implementing scheduling systems within geographic regions, where practical. For example, many of our diagnostic imaging facilities within a particular region can access the patient appointment calendars of other facilities within the same regional network to efficiently allocate time available and to meet a patient's appointment, date, time or location preferences. The grouping of our facilities within regional networks enables us to easily move technologists and other personnel, as well as equipment, from under-utilized to over-utilized facilities on an as-needed basis, and drive referrals. Our organization of referral networks results in increased patient throughput, greater operating efficiencies, better equipment utilization rates and improved response time for our patients. We believe our networks of facilities and tailored service offerings for geographic areas drives local physician referrals, makes us an attractive candidate for selection as a preferred provider by third-party payors, creates economies of scale and provides barriers to entry by competitors in our markets.

### **Our strong relationships with payors and diversified payor mix**

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

We believe that third-party payors representing large groups of patients often prefer to enter into managed care contracts with providers that offer a broad array of diagnostic imaging services at convenient locations throughout a geographic area. During the year ended December 31, 2009, we received approximately 56% of our payments from commercial insurance payors, 15% from managed care capitated payors, 20% from Medicare and 3% from Medicaid. With the exception of Blue Cross/Blue Shield, which are managed by different entities in each of the states in which we operate, and Medicare, no single payor accounted for more than 5% of our net revenue for the twelve months ended December 31, 2009.

TABLE OF CONTENTS

## **2009 Payor Mix**

### **Our strong relationships with experienced and highly regarded radiologists**

Our contracted radiologists have outstanding credentials, strong relationships with referring physicians and a broad mix of sub-specialties. The collective experience and expertise of these radiologists translates into more accurate and efficient service to patients. Our close relationship with Dr. Berger, our President and Chief Executive Officer, and BRMG in California and our long-term arrangements with radiologists outside of California enable us to better ensure that medical service provided at our facilities is consistent with the needs and expectations of our referring physicians, patients and payors.

### **Our experienced and committed management team**

Our senior management group has more than 100 years of combined healthcare management experience. Our executive management team has created our differentiated approach based on their comprehensive understanding of the diagnostic imaging industry and the dynamics of our regional markets. We have a track record of successful acquisitions and integration of acquired businesses into RadNet, and have managed the business through a variety of economic and reimbursement cycles. As of June 30, 2010, our management (other than non-employee directors) beneficially owned approximately 28.3% of our common stock.

### **Our technologically advanced imaging systems**

We have invested significant capital in our imaging systems over the last three years. Our state-of-the-art imaging systems can perform high quality scans more rapidly and can be used for a wider variety of imaging applications than less advanced systems. While general X-ray remains the most commonly performed diagnostic imaging procedure, the fastest growing and higher margin procedures are MRI, CT and PET. Because technological change in diagnostic imaging is gradual, most of our systems can be upgraded with software or hardware enhancements, which should allow us to continue to provide advanced technology without significant capital expenditure to replace an entire system. In recent years, we have made significant investments in upgrading our facilities to 100% digital imaging technology, inclusive of X-ray and mammography, and believe our advanced imaging systems will drive increased applications and higher patient throughput.

## **Business strategy**

### **Maximize performance at our existing facilities**

We intend to enhance our operations and increase scan volume and revenue at our existing facilities by expanding physician relationships and increasing the range of procedures available.

### **Focus on profitable contracting**

We regularly evaluate our contracts with third-party payors, industry vendors and radiology groups, as well as our equipment and real property leases, to determine how we may improve the terms to increase our revenues and reduce our expenses. Because many of our contracts with third party payors are short-term in nature, we can regularly



renegotiate these contracts, if necessary. We believe our position as a leading provider of diagnostic imaging services and our long-term relationships with physician groups in our markets enable us to obtain more favorable contract terms than would be available to smaller or less experienced imaging services providers.

TABLE OF CONTENTS

## **Expand MRI, CT and PET Applications**

We intend to continue to use expanding MRI, CT and PET applications as they become commercially available. Most of these applications can be performed by our existing MRI, CT and PET systems with upgrades to software and hardware, thereby minimizing capital expenditure requirements. We intend to introduce applications that will decrease scan and image-reading time and increase our productivity.

## **Optimize operating efficiencies**

We intend to maximize our equipment utilization by adding, upgrading and re-deploying equipment where we experience excess demand. We will continue to trim excess operating and general and administrative costs where it is feasible to do so, including consolidating, divesting or closing under-performing facilities to reduce operating costs and improve operating income. We may also continue to use, where appropriate, highly trained radiology physician assistants to perform, under appropriate supervision of radiologists, basic services traditionally performed by radiologists. We will continue to upgrade our advanced information technology system to create cost reductions for our facilities in areas such as image storage, support personnel and financial management.

## **Expand our networks**

We intend to continue to expand the number of our facilities through new developments and targeted acquisitions, using a disciplined approach for evaluating and entering new areas, including consideration of whether we have adequate financial resources to expand. Our current plans are to strengthen our market presence in geographic areas where we currently have existing operations and to expand into neighboring and other areas which we determine to be appropriate. We perform extensive due diligence before developing a new facility or acquiring an existing facility, including surveying local referral sources and radiologists, as well as examining the demographics, reimbursement environment, competitive landscape and intrinsic demand of the geographic market. We generally will only enter new markets where:

there is sufficient patient demand for outpatient diagnostic imaging services;  
we believe we can gain significant market share;  
we can build key referral relationships or we have already established such relationships; and  
payors are receptive to our entry into the market.

## **Our services**

We offer a comprehensive set of imaging services including MRI, CT, PET, nuclear medicine, X-ray, ultrasound, mammography, fluoroscopy and other related procedures. We focus on providing standardized high quality imaging services, regardless of location, to ensure patients, physicians and payors consistency in service and quality. To ensure the high quality of our services, we monitor patient satisfaction, timeliness of services to patients and reports to physicians. We believe our fees are generally lower than hospital fees for the services we provide.

The key features of our services include:

patient-friendly, non-clinical environments;  
a 24-hour turnaround on routine examinations;  
interpretations within one to two hours, if needed;  
flexible patient scheduling, including same-day appointments;

extended operating hours, including weekends;  
reports delivered by courier, facsimile or email;  
availability of second opinions and consultations;  
availability of sub-specialty interpretations at no additional charge; and  
standardized fee schedules by region.

TABLE OF CONTENTS

## **Radiology professionals**

In the states in which we provide services (except Florida), a lay person or any entity other than a professional corporation or similar professional organization is not allowed to practice medicine, including by employing professional persons or by having any ownership interest or profit participation in or control over any medical professional practice. This doctrine is commonly referred to as the prohibition on the corporate practice of medicine. In order to comply with this prohibition, we contract with radiologists to provide professional medical services in our facilities, including the supervision and interpretation of diagnostic imaging procedures. The radiology practice maintains full control over the physicians it employs. Pursuant to each management contract, we make available the imaging facility and all of the furniture and medical equipment at the facility for use by the radiology practice, and the practice is responsible for staffing the facility with qualified professional medical personnel. In addition, we provide management services and administration of the non-medical functions relating to the professional medical practice at the facility, including among other functions, provision of clerical and administrative personnel, bookkeeping and accounting services, billing and collection, provision of medical and office supplies, secretarial, reception and transcription services, maintenance of medical records, and advertising, marketing and promotional activities. As compensation for the services furnished under contracts with radiologists, we generally receive an agreed percentage of the medical practice billings for, or collections from, services provided at the facility, typically varying between 75% to 85% of global net revenue or collections after deduction of the professional fees.

At all but 10 of our California facilities we contract, directly or through BRMG, with other radiology groups to provide professional medical services. At our imaging facilities we charge a fee for our services as manager of the entity which owns the center.

Many states have also enacted laws prohibiting a licensed professional from splitting fees derived from the practice of medicine with an unlicensed person or business entity. We do not believe that the management, administrative, technical and other non-medical services we provide to each of our contracted radiology groups violate the corporate practice of medicine prohibition or that the fees we charge for such services violate the fee splitting prohibition. However, the enforcement and interpretation of these laws by regulatory authorities and state courts vary from state to state. If our arrangements with our independent contractor radiology groups are found to violate state laws prohibiting the practice of medicine by general business corporations or fee splitting, our business, financial condition and ability to operate in those states could be adversely affected.

### **BRMG in California**

Howard G. Berger, M.D., is our President and Chief Executive Officer, a member of our Board of Directors and owns approximately 15% of our outstanding common stock. Dr. Berger also owns, indirectly, 99% of the equity interests in BRMG. BRMG provides all of the professional medical services at 92 of our facilities located in California under a management agreement with us, and contracts with various other independent physicians and physician groups to provide the professional medical services at most of our other California facilities. We obtain professional medical services from BRMG in California, rather than provide such services directly or through subsidiaries, in order to comply with California's prohibition against the corporate practice of medicine. However, as a result of our close relationship with Dr. Berger and BRMG, we believe that we are able to better ensure that medical service is provided at our California facilities in a manner consistent with our needs and expectations and those of our referring physicians, patients and payors than if we obtained these services from unaffiliated physician groups.

We believe that physicians are drawn to BRMG and the other radiologist groups with whom we contract by the opportunity to work with the state-of-the-art equipment we make available to them, as well as the opportunity to

receive specialized training through our fellowship programs, and engage in clinical research programs, which generally are available only in university settings and major hospitals.

As of December 31, 2009, BRMG employed 78 full-time and nine part-time radiologists. Under our management agreement with BRMG, we are paid a percentage of the amounts collected for the professional services BRMG physicians render as compensation for our services and for the use of our facilities and equipment. For the year ended December 31, 2009, this percentage was 79%. The percentage may be

TABLE OF CONTENTS

adjusted, if necessary, to ensure that the parties receive the fair value for the services they render. The following are the other principal terms of our management agreement with BRMG:

The agreement expires on January 1, 2014. However, the agreement automatically renews for consecutive 10-year periods, unless either party delivers a notice of non-renewal to the other party no later than six months prior to the scheduled expiration date. Either party may terminate the agreement if the other party defaults under its obligations, after notice and an opportunity to cure. We may terminate the agreement if Dr. Berger no longer owns at least 60% of the equity of BRMG; as of June 30, 2010, he owned 99% of the equity of BRMG.

At its expense, BRMG employs or contracts with an adequate number of physicians necessary to provide all professional medical services at all of our California facilities, except for 10 facilities for which we contract with separate medical groups.

At our expense, we provide all furniture, furnishings and medical equipment located at the facilities and we manage and administer all non-medical functions at, and provide all nurses and other non-physician personnel required for the operation of, the facilities.

If BRMG wants to open a new facility, we have the right of first refusal to provide the space and services for the facility under the same terms and conditions set forth in the management agreement.

If we want to open a new facility, BRMG must use its best efforts to provide medical personnel under the same terms and conditions set forth in the management agreement. If BRMG cannot provide such personnel, we have the right to contract with other physicians to provide services at the facility.

BRMG must maintain medical malpractice insurance for each of its physicians with coverage limits not less than \$1 million per incident and \$3 million in the aggregate per year. BRMG also has agreed to indemnify us for any losses we suffer that arise out of the acts or omissions of BRMG and its employees, contractors and agents.

### **Non-California locations and 10 California locations**

At the 10 centers in California that BRMG does not provide professional medical services, and at all of the centers which are located outside of California, we have entered into long-term contracts with prominent third-party radiology groups in the area to provide physician services at those facilities. These arrangements also allow us to comply with the prohibition against the corporate practice of medicine in other states in which we operate (except in Florida which does not have an equivalent statute prohibiting the corporate practice of medicine).

These third-party radiology practice groups 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 have entered into long-term agreements (typically 10 - 40 years in length) under which, 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. We typically receive 100% of the technical reimbursements associated with imaging procedures plus certain fees paid to us for providing additional management services. The radiology practice groups retain the professional reimbursements associated with imaging procedures after deducting certain additional management service fees paid to us.

Additionally, we perform certain management services for a portion of the professional groups with whom we contract who provide professional radiology services at local hospitals. For performing these management services, which include billing, collecting, transcription and medical coding, we receive management fees.



TABLE OF CONTENTS**Payors**

The fees charged for diagnostic imaging services performed at our facilities are paid by a diverse mix of payors, as illustrated for the following periods presented in the table below:

	% of Net Revenue			
	Three Months Ended June 30, 2010	Year Ended December 31, 2009	Year Ended December 31, 2008	Year Ended December 31, 2007
Commercial Insurance <sup>(1)</sup>	55.5 %	56 %	56 %	57 %
Managed Care Capitated Payors	15.6 %	15 %	15 %	15 %
Medicare	19.5 %	20 %	20 %	19 %
Medicaid	3 %	3 %	3 %	3 %
Other <sup>(2)</sup>	2.3 %	2 %	2 %	2 %
Workers Compensation/Personal Injury	4.1 %	4 %	4 %	4 %

Includes Blue Cross/Blue Shield plans, which represented 19% of our net revenue for the year ended December 31, (1)2007, 19% of our net revenue for the year ended December 31, 2008 and 24% of our net revenue for the year ended December 31, 2009.

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

We have described below the types of reimbursement arrangements we have with third-party payors.

**Commercial insurance**

Generally, insurance companies reimburse us, directly or indirectly, including through BRMG in California or through the contracted radiology groups elsewhere, on the basis of agreed upon rates. These rates are on average approximately the same as the rates set forth in the Medicare Physician Fee Schedule for the particular service. The patients are generally not responsible for any amount above the insurance allowable amount.

**Managed care capitation agreements**

Under these agreements, which are generally between BRMG in California and outside of California between the contracted radiology group and the payor, typically an independent physician group or other medical group, the payor pays a pre-determined amount per-member per-month in exchange for the radiology group providing all necessary covered services to the managed care members included in the agreement. These contracts pass much of the financial risk of providing outpatient diagnostic imaging services, including the risk of over-use, from the payor to the radiology group and, as a result of our management agreement with the radiology group, to us.

We believe that through our comprehensive utilization management, or UM, program we have become highly skilled at assessing and moderating the risks associated with the capitation agreements, so that these agreements are profitable for us. Our UM program is managed by our UM department, which consists of administrative and nursing staff as well as BRMG medical staff who are actively involved with the referring physicians and payor management in both prospective and retrospective review programs. Our UM program includes the following features, all of which are



designed to manage our costs while ensuring that patients receive appropriate care:

*Physician Education*

At the inception of a new capitation agreement, we provide the new referring physicians with binders of educational material comprised of proprietary information that we have prepared and third-party information we have compiled, which are designed to address diagnostic strategies for common diseases. We distribute additional material according to the referral practices of the group as determined in the retrospective analysis described below.

74

---

## TABLE OF CONTENTS

### *Prospective Review*

Referring physicians are required to submit authorization requests for non-emergency high-intensity services: MRI, CT, special procedures and nuclear medicine studies. The UM medical staff, according to accepted practice guidelines, considers the necessity and appropriateness of each request. Notification is then sent to the imaging facility, referring physician and medical group. Appeals for cases not approved are directed to us. The capitated payor has the final authority to uphold or deny our recommendation.

### *Retrospective Review*

We collect and sort encounter activity by payor, place of service, referring physician, exam type and date of service. The data is then presented in quantitative and analytical form to facilitate understanding of utilization activity and to provide a comparison between fee-for-service and Medicare equivalents. Our Medical Director prepares a quarterly report for each payor and referring physician, which we send to them. When we find that a referring physician is over utilizing services, we work with the physician to modify referral patterns.

## **Medicare/Medicaid**

Medicare is the federal health insurance program for people age 65 or older and people under age 65 with certain disabilities. Medicaid, funded by both the federal government and states, is a state-administered health insurance program for qualifying low-income and medically needy persons. For services for which we bill Medicare directly or indirectly, including through contracted radiologists, we are paid under the Medicare Physician Fee Schedule. Medicare patients usually pay a 20% co-payment unless they have secondary insurance. Medicaid rates are set by the individual states for each state program and Medicaid patients may be responsible for a modest co-payment.

## **Contracts with physician groups and other entities**

For some of our contracts with physician groups and other providers, we do not bill payors, but instead accept agreed upon rates for our radiology services.

## **Contracts with physician groups and other non-insurance company payors**

These payors reimburse us, directly or indirectly, on the basis of agreed upon rates. These rates are typically at or below the rates set forth in the current Medicare Fee Schedule for the particular service. However, we often agree to a specified rate for MRI and CT procedures that is not tied to the Medicare Fee Schedule. The patients are generally not responsible for the unreimbursed portion.

## **Facilities**

Through our wholly owned subsidiaries, we operate 102 fixed-site, freestanding outpatient diagnostic imaging facilities in California, 39 in the Baltimore-Washington, D.C. area, 23 in the Rochester, Brooklyn and Hudson Valley areas of New York, 13 in Delaware, 10 in New Jersey, as well as three individual facilities in Florida and one in Kansas. We lease the premises at which these facilities are located.

Our facilities are primarily located in regional networks that we refer to as regions. The majority of our facilities are multi-modality sites, offering various combinations of MRI, CT, PET, nuclear medicine, ultrasound, X-ray, fluoroscopy services and other related procedures. A portion of our facilities are single-modality sites, offering either X-ray or MRI services. Consistent with our regional network strategy, we locate our single-modality facilities near

multi-modality facilities, to help accommodate overflow in targeted demographic areas.

The following table sets forth the number of our facilities for each year during the five-year period ended December 31, 2009 and the six months ended June 30, 2010:

75

---

TABLE OF CONTENTS

	Six Months Ended June 30, 2010	Year Ended December 31,				
	2009	2008	2007	2006	2005	
Total facilities owned or managed (at beginning of the year)	180	164	141	132	57	56
Facilities added by:						
Acquisition*	11	14	24	12	78	
Internal development	3	3	4	2	4	1
Facilities closed or sold	(3 )	(1 )	(5 )	(5 )	(7 )	
Total facilities owned or managed (at period end)	191	180	164	141	132*	57

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

## Diagnostic imaging equipment

The following table indicates, as of June 30, 2010, the quantity of principal diagnostic equipment available at our facilities, by region:

	MRI	Open/MRI	CT	PET/CT	Mammo	Ultrasound	X-ray	Nuc Med	Fluoroscopy	Total
Kansas										
California	50	23	34	19	67	111	72	17	56	449
Florida	2	1	2	1	6	5	4	2	2	25
Delaware	7	1	6	1	4	14	14	1	4	52
New Jersey	9	2	4		7	18			6	46
New York	18	1	13	3	14	37	18	2	9	115
Maryland	24	9	27	9	33	88	49	20	16	275
Total	110	37	86	33	131	273	157	42	93	962

The average age of our MRI and CT units is less than six years, and the average age of our PET units is less than four years. The useful life of our MRI, CT and PET units is typically ten years.

## Facility acquisitions and divestitures

Information regarding our facility acquisitions can be found within Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, as well as Note 3 to the consolidated financial statements of this prospectus.

## Information technology

Our corporate headquarters and many of our facilities are interconnected through a state-of-the-art information technology system. This system, which is compliant with the Health Insurance Portability and Accountability Act of

1996, is comprised of a number of integrated applications and provides a single operating platform for billing and collections, electronic medical records, practice management and image management.

This technology has created cost reductions for our facilities in areas such as image storage, support personnel and financial management and has further allowed us to optimize the productivity of all aspects of our business by enabling us to:

capture patient demographic, history and billing information at point-of-service;  
automatically generate bills and electronically file claims with third-party payors;  
record and store diagnostic report images in digital format;

76

---

## TABLE OF CONTENTS

digitally transmit in real-time diagnostic images from one location to another, thus enabling networked radiologists to cover larger geographic markets by using the specialized training of other networked radiologists;

perform claims, rejection and collection analysis; and perform sophisticated financial analysis, such as analyzing cost and profitability, volume, charges, current activity and patient case mix, with respect to each of our managed care contracts.

Diagnostic reports and images are currently accessible via the Internet by our California referring providers. We have worked with some of the larger medical groups in California with whom we have contracts to provide access to this content through their web portals. We are in the process of making such services available outside of California.

## **Personnel**

At June 30, 2010, we had a total of 3,002 full-time, 516 part-time and 356 per diem employees, including those employed by BRMG. These numbers include 73 full-time and four part-time physicians and 839 full-time, 323 part-time and 218 per-diem technologists.

We employ site managers who are responsible for overseeing day-to-day and routine operations at each of our facilities, including staffing, modality and schedule coordination, referring physician and patient relations and purchasing of materials. These site managers report to regional managers and directors, who are responsible for oversight of the operations of all facilities within their region, including sales, marketing and contracting. The regional managers and directors, along with our directors of contracting, marketing, facilities, management/purchasing and human resources report to our chief operating officers. These officers, our chief financial officer, our director of information services and our medical director report to our chief executive officer.

None of our employees is subject to a collective bargaining agreement nor have we experienced any work stoppages. We believe our relationship with our employees is good.

## **Marketing**

As of June 30, 2010, our California marketing team consisted of one director of marketing, six territory sales managers and 20 customer service representatives. Our eastern marketing team consists of 27 customer sales representatives and six sales managers who each report to a district manager. Our marketing team employs a multi-pronged approach to marketing, including physician, payor and sports marketing programs.

## **Physician marketing**

Each customer service representative is responsible for marketing activity on behalf of one or more facilities. The representatives act as a liaison between the facility and referring physicians, holding meetings periodically and on an as-needed basis with them and their staff to present educational programs on new applications and uses of our systems and to address particular patient service issues that have arisen. In our experience, consistent hands-on contact with a referring physician and his or her staff generates goodwill and increases referrals. The representatives also continually seek to establish referral relationships with new physicians and physician groups. In addition to a base salary and a car allowance, each representative receives a quarterly bonus if the facility or facilities on behalf of which he or she markets meets specified net revenue goals for the quarter.

## **Payor marketing**

Our marketing team regularly meets with managed care organizations and insurance companies to solicit contracts and meet with existing contracting payors to solidify those relationships. The comprehensiveness of our services, the geographic location of our facilities and the reputation of the physicians with whom we contract all serve as tools for obtaining new or repeat business from payors.

## **Sports marketing program**

We have a sports marketing program designed to increase our public profile. We provide X-ray equipment and a technician for all of the basketball games of the Lakers, Clippers and Sparks held at the

77

---

## TABLE OF CONTENTS

Staples Center in Los Angeles, Ducks hockey games held at the Honda Center in Anaheim, and University of Southern California football games held in the Los Angeles Coliseum. In exchange for this service, we receive game tickets and an advertisement in each team program throughout the season. In addition, we have a close relationship with the physicians for some of these teams.

## **Suppliers**

Historically, we have acquired a majority of our advanced diagnostic imaging equipment from GE Medical Systems, Inc., and we purchase medical supplies from various national vendors. We believe that we have excellent working relationships with all of our major vendors. However, there are several comparable vendors for our supplies that would be available to us if one of our current vendors becomes unavailable.

We primarily acquire our equipment with cash or through various financing arrangements with equipment vendors and third party equipment finance companies involving the use of capital leases with purchase options at minimal prices at the end of the lease term. At June 30, 2010, capital lease obligations, excluding interest, totaled approximately \$21.8 million through 2014, including current installments totaling approximately \$7.1 million. If we open or acquire additional imaging facilities, we may have to incur material capital lease obligations.

Timely, effective maintenance is essential for achieving high utilization rates of our imaging equipment. We have an arrangement with GE Medical Systems, Inc. under which it has agreed to be responsible for the maintenance and repair of a majority of our equipment for a fee that is based upon a percentage of our revenue, subject to a minimum payment. Net revenue is reduced by the provision for bad debts, mobile PET revenue and other professional reading service revenue to obtain adjusted net revenue.

## **Competition**

The market for diagnostic imaging services is highly competitive. We compete principally on the basis of our reputation, our ability to provide multiple modalities at many of our facilities, the location of our facilities, the quality of our diagnostic imaging services and technologists and the ability to establish and maintain relationships with healthcare providers and referring physicians. We compete locally with groups of radiologists, established hospitals, clinics and other independent organizations that own and operate imaging equipment. Our competitors include Alliance Healthcare Services, Inc., Diagnostic Imaging Group, In Sight Health Services Corp. and American Radiology Services. Some of our competitors may now or in the future have access to greater financial resources than we do and may have access to newer, more advanced equipment. In addition, some physician practices have established their own diagnostic imaging facilities within their group practices to compete with us. We experience additional competition as a result of those activities.

Each of the non-BRMG contracted radiology practices under the comprehensive services model has entered into agreements with its physician shareholders and full-time employed radiologists that generally prohibit those shareholders and radiologists from competing for a period of two years within defined geographic regions after they cease to be owners or employees, as applicable. In certain states, like California, a covenant not to compete is enforced in limited circumstances involving the sale of a business. In other states, a covenant not to compete will be enforced only:

to the extent it is necessary to protect a legitimate business interest of the party seeking enforcement;  
if it does not unreasonably restrain the party against whom enforcement is sought; and  
if it is not contrary to public interest.



Enforceability of a non-compete covenant is determined by a court based on all of the facts and circumstances of the specific case at the time enforcement is sought. For this reason, it is not possible to predict whether or to what extent a court will enforce the contracted radiology practices covenants. The inability of the contracted radiology practices or us to enforce radiologist s non-compete covenants could result in increased competition from individuals who are knowledgeable about our business strategies and operations.

78

---

TABLE OF CONTENTS

## **Liability insurance**

We maintain insurance policies with coverage we believe is appropriate in light of the risks attendant to our business and consistent with industry practice. However, adequate liability insurance may not be available to us in the future at acceptable costs or at all. We maintain general liability insurance and professional liability insurance in commercially reasonable amounts. Additionally, we maintain workers' compensation insurance on all of our employees. Coverage is placed on a statutory basis and responds to individual state's requirements.

Pursuant to our agreements with physician groups with whom we contract, including BRMG, each group must maintain medical malpractice insurance for each physician in the group, having coverage limits of not less than \$1.0 million per incident and \$3.0 million in the aggregate per year.

California's medical malpractice cap further reduces our exposure. California places a \$250,000 limit on non-economic damages for medical malpractice cases. Non-economic damages are defined as compensation for pain, suffering, inconvenience, physical impairment, disfigurement and other non-pecuniary injury. The cap applies whether the case is for injury or death, and it allows only one \$250,000 recovery in a wrongful death case. No cap applies to economic damages. Other states in which we now operate do not have similar limitations and in those states we believe our insurance coverage to be sufficient.

We maintain a \$5.0 million key-man life insurance policy on the life of Dr. Berger. We are the beneficiary under the policy.

## **Regulation**

### **General**

The healthcare industry is highly regulated, and we can give no assurance that the regulatory environment in which we operate will not change significantly in the future. Our ability to operate profitably will depend in part upon us, and the contracted radiology practices and their affiliated physicians obtaining and maintaining all necessary licenses and other approvals, and operating in compliance with applicable healthcare regulations. We believe that healthcare regulations will continue to change. Therefore, we monitor developments in healthcare law and modify our operations from time to time as the business and regulatory environment changes. Although we intend to continue to operate in compliance, we cannot ensure that we will be able to adequately modify our operations so as to address changes in the regulatory environment.

### **Licensing and certification laws**

Ownership, construction, operation, expansion and acquisition of diagnostic imaging facilities are subject to various federal and state laws, regulations and approvals concerning licensing of facilities and personnel. In addition, free-standing diagnostic imaging facilities that provide services not performed as part of a physician office must meet Medicare requirements to be certified as an independent diagnostic testing facility to bill the Medicare program. We may not be able to receive the required regulatory approvals for any future acquisitions, expansions or replacements, and the failure to obtain these approvals could limit the market for our services. We have experienced a slowdown in the credentialing of our physicians over the last several years which has lengthened our billing and collection cycle.

## **Corporate practice of medicine**

In the states in which we operate, a lay person or any entity other than a professional corporation or other similar professional organization is not allowed to practice medicine, including by employing professional persons or by having any ownership interest or profit participation in or control over any medical professional practice. The laws of such states also prohibit a lay person or a non-professional entity from exercising control over the medical judgments or decisions of physicians and from engaging in certain financial arrangements, such as splitting professional fees with physicians. We structure our relationships with the radiology practices, including the purchase of diagnostic imaging facilities, in a manner that we believe keeps us from engaging in the practice of medicine, exercising control over the medical judgments or decisions of the radiology practices or their physicians, or violating the prohibitions against fee-splitting. There can be no assurance that our present arrangements with BRMG or the other physicians providing

79

---

TABLE OF CONTENTS

medical services and medical supervision at our imaging facilities will not be challenged, and, if challenged, that they will not be found to violate the corporate practice of medicine or fee splitting prohibitions, thus subjecting us to a potential combination of damages, injunction and civil and criminal penalties or require us to restructure our arrangements in a way that would affect the control or quality of our services or change the amounts we receive under our management agreements, or both.

**Medicare and Medicaid fraud and abuse**

Our revenue is derived through our ownership, operation and management of diagnostic imaging centers and from service fees paid to us by contracted radiology practices. During the three months ended June 30, 2010, approximately 19.5% of our revenue generated at our diagnostic imaging centers was derived from federal government sponsored healthcare programs (Medicare) and 3% from state sponsored programs (Medicaid).

Federal law known as the Anti-kickback Statute prohibits the knowing and willful offer, payment, solicitation or receipt of any form of remuneration in return for, or to induce, (i) the referral of a person, (ii) the furnishing or arranging for the furnishing of items or services reimbursable under the Medicare, Medicaid or other governmental programs or (iii) the purchase, lease or order or arranging or recommending purchasing, leasing or ordering of any item or service reimbursable under the Medicare, Medicaid or other governmental programs. Enforcement of this anti-kickback law is a high priority for the federal government, which has substantially increased enforcement resources and is scheduled to continue increasing such resources. Noncompliance with the federal Anti-kickback Statute can result in exclusion from the Medicare, Medicaid or other governmental programs and civil and criminal penalties.

As described above, the Anti-kickback Statute is broad, and it prohibits many arrangements and practices that are lawful in businesses outside of the healthcare industry. Recognizing that the Anti-kickback Statute is broad and may technically prohibit many innocuous or beneficial arrangements within the healthcare industry, the Office of the Inspector General of the U.S. Department of Health and Human Services issued regulations in July of 1991, which the Department has referred to as safe harbors. These safe harbor regulations set forth certain provisions which, if met in form and substance, will assure healthcare providers and other parties that they will not be prosecuted under the federal Anti-kickback Statute. Additional safe harbor provisions providing similar protections have been published intermittently since 1991. Our arrangements with physicians, physician practice groups, hospitals and other persons or entities who are in a position to refer may not fully meet the stringent criteria specified in the various safe harbors. Although full compliance with these provisions ensures against prosecution under the federal Anti-kickback Statute, the failure of a transaction or arrangement to fit within a specific safe harbor does not necessarily mean that the transaction or arrangement is illegal or that prosecution under the federal Anti-kickback Statute will be pursued.

Although some of our arrangements may not fall within a safe harbor, we believe that such business arrangements do not violate the Anti-kickback Statute because we are careful to structure them to reflect fair market value and ensure that the reasons underlying our decision to enter into a business arrangement comport with reasonable interpretations of the Anti-kickback Statute. However, even though we continuously strive to comply with the requirements of the Anti-kickback Statute, liability under the Anti-kickback Statute may still arise because of the intentions or actions of the parties with whom we do business. While we are not aware of any such intentions or actions, we have only limited knowledge regarding the intentions or actions underlying those arrangements. Conduct and business arrangements that do not fully satisfy one of these safe harbor provisions may result in increased scrutiny by government enforcement authorities such as the Office of the Inspector General.

Significant prohibitions against physician referrals have been enacted by Congress. These prohibitions include the

Ethics in Patient Referral Act of 1989 which is commonly known as the Stark Law. The Stark Law prohibits a physician from referring Medicare patients to an entity providing designated health services, as defined under the Stark Law, including, without limitation, radiology services, in which the physician (or immediate family member) has an ownership or investment interest or with which the physician (or immediate family member) has entered into a compensation arrangement. The Stark Law also prohibits the entity from billing for any such prohibited referral. The penalties for violating the Stark Law include a prohibition on payment by these governmental programs and civil penalties of as much as \$15,000 for each violation referral

TABLE OF CONTENTS

and \$100,000 for participation in a circumvention scheme. We believe that, although we receive fees under our service agreements for management and administrative services, we are not in a position to make or influence referrals of patients.

On January 4, 2001, the CMS published the first phase of the final regulations to implement the Stark Law. CMS subsequently released phase two of the Stark Law final rule as a final rule effective July 26, 2004; phase three, effective on December 4, 2007; and finally, on August 19, 2008, CMS finalized additional changes to the Stark Law which became effective on October 1, 2009. Under the Stark Law, radiology and certain other imaging services and radiation therapy services and supplies are services included in the designated health services subject to the self-referral prohibition. Such services include the professional and technical components of any diagnostic test or procedure using X-rays, ultrasound or other imaging services, CT, MRI, radiation therapy and diagnostic mammography services (but not screening mammography services). The Stark Law, however, excludes from designated health services: (i) X-ray, fluoroscopy or ultrasound procedures that require the insertion of a needle, catheter, tube or probe through the skin or into a body orifice; (ii) radiology procedures that are integral to the performance of, and performed during, non-radiological medical procedures; and (iii) invasive or interventional radiology, because the radiology services in these procedures are merely incidental or secondary to another procedure that the physician has ordered. Beginning January 1, 2007, PET and nuclear medicine procedures are included as designated health services under the Stark Law.

The Stark Law provides that a request by a radiologist for diagnostic radiology services or a request by a radiation oncologist for radiation therapy, if such services are furnished by or under the supervision of such radiologist or radiation oncologist pursuant to a consultation requested by another physician, does not constitute a referral by a referring physician. If such requirements are met, the Stark Law self-referral prohibition would not apply to such services. The effect of the Stark Law on the radiology practices, therefore, will depend on the precise scope of services furnished by each such practice's radiologists and whether such services derive from consultations or are self-generated. We believe that, other than self-referred patients, all of the services covered by the Stark Law provided by the contracted radiology practices derive from requests for consultation by non-affiliated physicians. Therefore, we believe that the Stark Law is not implicated by the financial relationships between our operations and the contracted radiology practices.

In addition, we believe that we have structured our acquisitions of the assets of existing practices, and we intend to structure any future acquisitions, so as not to violate the Anti-kickback Statute and Stark Law and regulations. Specifically, we believe the consideration paid by us to physicians to acquire the tangible and intangible assets associated with their practices is consistent with fair market value in arms-length transactions and is not intended to induce the referral of patients or other business generated by such physicians. Should any such practice be deemed to constitute an arrangement designed to induce the referral of Medicare or Medicaid patients, then our acquisitions could be viewed as possibly violating anti-kickback and anti-referral laws and regulations. A determination of liability under any such laws could have a material adverse effect on our business, financial condition and results of operations.

The federal government embarked on an initiative to audit all Medicare carriers, which are the companies that adjudicate and pay Medicare claims. These audits are expected to intensify governmental scrutiny of individual providers. An unsatisfactory audit of any of our diagnostic imaging facilities or contracted radiology practices could result in any or all of the following: significant repayment obligations, exclusion from the Medicare, Medicaid or other governmental programs, and civil and criminal penalties.

Federal regulatory and law enforcement authorities have increased enforcement activities with respect to Medicare, Medicaid fraud and abuse regulations and other reimbursement laws and rules, including laws and regulations that

govern our activities and the activities of the radiology practices. The federal government also has increased funding to fight healthcare fraud and is coordinating its enforcement efforts among various agencies, such as the U.S. Department of Justice, the U.S. Department of Health and Human Services Office of Inspector General, and state Medicaid fraud control units. The trend towards increased funding is also seen most recently in President Obama's budget for fiscal year 2011. The government may investigate our or the

## TABLE OF CONTENTS

radiology practices activities, claims may be made against us or the radiology practices and these increased enforcement activities may directly or indirectly have an adverse effect on our business, financial condition and results of operations.

### **State anti-kickback and physician self-referral laws**

Many states have adopted laws similar to the federal Anti-kickback Statute. Some of these state prohibitions apply to referral of patients for healthcare services reimbursed by any source, not only the Medicare and Medicaid programs.

Although we believe that we comply with both federal and state Anti-kickback laws, any finding of a violation of these laws could subject us to criminal and civil penalties or possible exclusion from federal or state healthcare programs. Such penalties would adversely affect our financial performance and our ability to operate our business.

### **Federal False Claims Act**

The federal False Claims Act provides, in part, that the federal government may bring a lawsuit against any person who it believes has knowingly presented, or caused to be presented, a false or fraudulent request for payment from the federal government, or who has made a false statement or used a false record to get a claim approved. The federal False Claims Act further provides that a lawsuit thereunder may be initiated in the name of the United States by an individual, a whistleblower, who is an original source of the allegations. The government has taken the position that claims presented in violation of the federal Anti-kickback Law or Stark Law may be considered a violation of the federal False Claims Act. Penalties include civil penalties of not less than \$5,500 and not more than \$11,000 for each false claim, plus three times the amount of damages that the federal government sustained because of the act of that person.

Recently, the number of suits brought against healthcare providers by private individuals has increased dramatically.

Further, on May 20, 2009, President Obama signed into law the Fraud Enforcement and Recovery Act of 2009 (FERA), which greatly expanded the types of entities and conduct subject to the False Claims Act. Also, various states are considering or have enacted laws modeled after the federal False Claims Act. Under the DRA, states are being encouraged to adopt false claims acts similar to the federal False Claims Act, which establish liability for submission of fraudulent claims to the State Medicaid program and contain whistleblower provisions. Even in instances when a whistleblower action is dismissed with no judgment or settlement, we may incur substantial legal fees and other costs relating to an investigation. Future actions under the False Claims Act may result in significant fines and legal fees, which would adversely affect our financial performance and our ability to operate our business.

We believe that we are in compliance with the rules and regulations that apply to the federal False Claims Act as well as its state counterparts. However, we could be found to have violated certain rules and regulations resulting in sanctions under the federal False Claims Act or its state counterparts. If we are so found in violation, any sanctions imposed could result in fines and penalties and restrictions on and exclusion from participation in federal and state healthcare programs that are integral to our business.

### **Healthcare reform legislation**

Healthcare reform legislation enacted in the first quarter of 2010 by the Patient Protection and Affordable Care Act or PPACA, specifically requires the U.S. Department of Health and Human Services, in computing physician practice expense relative value units, to increase the equipment utilization factor for advanced diagnostic imaging services (such as MRI, CT and PET) from a presumed utilization rate of 50% to 65% for 2010 through 2012, 70% in 2013, and 75% thereafter. Excluded from the adjustment are low-technology imaging modalities such as ultrasound, X-ray and



fluoroscopy. The Health Care and Education Reconciliation Act of 2010 (H.R. 4872), which was passed by the Senate and approved by the President on March 30, 2010, amends the provision for higher presumed utilization of advanced diagnostic imaging services to a presumed rate of 75%. The higher utilization rate should be fully implemented beginning in 2011, in place of the phase-in approach provided in the PPACA. These changes may result in decreased revenue for the scans we perform for Medicare beneficiaries. Other changes in reimbursement for services rendered by Medicare Advantage plans may also reduce the revenues we receive for services rendered to Medicare Advantage enrollees.

TABLE OF CONTENTS

## **Health Insurance Portability and Accountability Act of 1996**

Congress enacted HIPAA, in part, to combat healthcare fraud and to protect the privacy and security of patients individually identifiable healthcare information. HIPAA, among other things, amends existing crimes and criminal penalties for Medicare fraud and enacts new federal healthcare fraud crimes, including actions affecting non-government healthcare benefit programs. Under HIPAA, a healthcare benefit program includes any private plan or contract affecting interstate commerce under which any medical benefit, item or service is provided. A person or entity that knowingly and willfully obtains the money or property of any healthcare benefit program by means of false or fraudulent representations in connection with the delivery of healthcare services is subject to a fine or imprisonment, or potentially both. In addition, HIPAA authorizes the imposition of civil money penalties against entities that employ or enter into contracts with excluded Medicare or Medicaid program participants if such entities provide services to federal health program beneficiaries. A finding of liability under HIPAA could have a material adverse effect on our business, financial condition and results of operations.

Further, HIPAA requires healthcare providers and their business associates to maintain the privacy and security of individually identifiable protected health information ( PHI ). HIPAA imposes federal standards for electronic transactions, for the security of electronic health information and for protecting the privacy of PHI. The HITECH Act, signed into law on February 17, 2009, dramatically expanded, among other things, (1) the scope of HIPAA to now apply directly to business associates, or independent contractors who receive or obtain PHI in connection with providing a service to a covered entity, (2) substantive security and privacy obligations, including new federal security breach notification requirements to affected individuals, DHHS and prominent media outlets, of certain breaches of unsecured PHI, (3) restrictions on marketing communications and a prohibition on covered entities or business associates from receiving remuneration in exchange for PHI, and (4) the civil and criminal penalties that may be imposed for HIPAA violations, increasing the annual cap in penalties from \$25,000 to \$1.5 million per year.

In addition, many states have enacted comparable privacy and security statutes or regulations that, in some cases, are more stringent than HIPAA requirements. In those cases it may be necessary to modify our operations and procedures to comply with the more stringent state laws, which may entail significant and costly changes for us. We believe that we are in compliance with such state laws and regulations. However, if we fail to comply with applicable state laws and regulations, we could be subject to additional sanctions.

We believe that we are in compliance with the current HIPAA requirements, as amended by HITECH, and comparable state laws, but we anticipate that we may encounter certain costs associated with future compliance. Moreover, we cannot guarantee that enforcement agencies or courts will not make interpretations of the HIPAA standards that are inconsistent with ours, or the interpretations of our contracted radiology practices or their affiliated physicians. A finding of liability under the HIPAA standards may result in significant criminal and civil penalties. Noncompliance also may result in exclusion from participation in government programs, including Medicare and Medicaid. These actions could have a material adverse effect on our business, financial condition, and results of operations.

### **Compliance program**

We maintain a program to monitor compliance with federal and state laws and regulations applicable to healthcare entities. We have a compliance officer who is charged with implementing and supervising our compliance program, which includes the adoption of (i) Standards of Conduct for our employees and affiliates and (ii) a process that specifies how employees, affiliates and others may report regulatory or ethical concerns to our compliance officer. We believe that our compliance program meets the relevant standards provided by the Office of Inspector General of the

Department of Health and Human Services.

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

83

---

## TABLE OF CONTENTS

### **U.S. Food and Drug Administration or FDA**

The FDA has issued the requisite pre-market approval for all of the MRI and CT systems we use. We do not believe that any further FDA approval is required in connection with the majority of equipment currently in operation or proposed to be operated, except under regulations issued by the FDA pursuant to the Mammography Quality Standards Act of 1992, as amended by the Mammography Quality Standards Reauthorization Acts of 1998 and 2004 (collectively, the MQSA ). All mammography facilities are required to meet the applicable MQSA requirements, including quality standards, be accredited by an approved accreditation body or state agency and certified by the FDA or a FDA-approved certifying state agency. Pursuant to the accreditation process, each facility providing mammography services must comply with certain standards that include, among other things, annual inspection of the facility's equipment, personnel (interpreting physicians, technologists and medical physicists) and practices.

Compliance with these MQSA requirements and standards is required to obtain Medicare payment for services provided to beneficiaries and to avoid various sanctions, including monetary penalties, or suspension of certification.

Although the Mammography Accreditation Program of the American College of Radiology is an approved accreditation body and currently accredits all of our facilities which provide mammography services, and although we anticipate continuing to meet the requirements for accreditation, if we lose such accreditation, the FDA could revoke our certification. Congress has extended Medicare benefits to include coverage of screening mammography but coverage is subject to the facility performing the mammography meeting prescribed quality standards described above. The Medicare requirements to meet the standards apply to diagnostic mammography and image quality examination as well as screening mammography.

### **Radiologist licensing**

The radiologists providing professional medical services at our facilities are subject to licensing and related regulations by the states in which they provide services. As a result, we require BRMG and the other radiology groups with which we contract to require those radiologists to have and maintain appropriate licensure. We do not believe that such laws and regulations will either prohibit or require licensure approval of our business operations, although no assurances can be made that such laws and regulations will not be interpreted to extend such prohibitions or requirements to our operations.

### **Insurance laws and regulation**

States in which we operate have adopted certain laws and regulations affecting risk assumption in the healthcare industry, including those that subject any physician or physician network engaged in risk-based managed care to applicable insurance laws and regulations. These laws and regulations may require physicians and physician networks to meet minimum capital requirements and other safety and soundness requirements. Implementing additional regulations or compliance requirements could result in substantial costs to the contracted radiology practices, limiting their ability to enter into capitated or other risk-sharing managed care arrangements and indirectly affecting our revenue from the contracted practices.

### **Environmental matters**

The facilities we operate or manage generate hazardous and medical waste subject to federal and state requirements regarding handling and disposal. We believe that the facilities that we operate and manage are currently in compliance in all material respects with applicable federal, state and local statutes and ordinances regulating the handling and

disposal of such materials. We do not believe that we will be required to expend any material additional amounts in order to remain in compliance with these laws and regulations or that compliance will materially affect our capital expenditures, earnings or competitive position.

## **Deficit Reduction Act of 2005 (DRA)**

On February 8, 2006, the President signed into law the DRA. Effective January 1, 2007, the DRA provides that Medicare reimbursement for the technical component for imaging services (excluding diagnostic and screening mammography) performed in freestanding facilities will be capped. Payment will be the lesser of the Medicare Physician Fee Schedule or the Hospital Outpatient Prospective Payment System (HOPPS) rates. Implementation of these reimbursement reductions contained in the DRA has had a significant adverse effect on our business, financial condition and results of operations.

TABLE OF CONTENTS

The DRA also codified the reduction in reimbursement for multiple images on contiguous body parts previously announced by CMS, the agency responsible for administering the Medicare program. In November 2005, CMS announced that it would pay 100% of the technical component of the higher priced imaging procedure and 50% of the technical component of each additional imaging procedure for imaging procedures involving contiguous body parts within a family of codes when performed in the same session. CMS had indicated that it would phase in this 50% rate reduction over two years, so that the reduction was 25% for each additional imaging procedure in 2006 and another 25% in 2007. To date, CMS has implemented the 25% reduction for each additional procedure but has not yet implemented the additional 25% reduction scheduled for 2007. However, for services furnished on or after July 1, 2010, the PPACA which, as stated above, was signed into law on March 23, 2010, requires the full 50% reduction to be implemented, as mandated by the DRA. At this time, we cannot predict the impact the implementation of the 50% reduction will have on our business.

TABLE OF CONTENTS**MANAGEMENT****Executive Officers and Directors**

Set forth below is information regarding executive officers and directors of RadNet, Inc., the ultimate parent company of Radnet Management and the other registrant subsidiary guarantors. The names of our current executive officers and directors, their ages as of June 30, 2010, and their positions are shown below. Biographical summaries of each of our executive officers and directors are also included below. The officers are elected annually and serve at the discretion of the Board of Directors.

Name	Age	Position
Howard G. Berger, M.D.	64	President, Chief Executive Officer and Chairman of the Board of Directors
John V. Crues, III, M.D.	60	Vice President, Medical Director and Director
Stephen M. Forthuber	50	Executive Vice President and Chief Operating Officer Eastern Operations
Norman R. Hames	54	Executive Vice President, Secretary, Chief Operating Officer Western Operations and Director
Jeffrey L. Linden	67	Executive Vice President and General Counsel
Mark D. Stolper	38	Executive Vice President and Chief Financial Officer
Michael N. Murdock	55	Executive Vice President and Chief Development Officer
Marvin S. Cadwell	67	Director
Lawrence L. Levitt	67	Director
Michael L. Sherman, M.D.	68	Director
David L. Swartz	66	Director

Howard G. Berger, M.D. has served as President and Chief Executive Officer of our company and its predecessor entities since 1987. Dr. Berger is also the president of the entities that own BRMG and is the sole director of Radnet Management, Inc. and the other registrant subsidiary guarantors. Dr. Berger has over 25 years of experience in the development and management of healthcare businesses. He began his career in medicine at the University of Illinois Medical School, is Board Certified in Nuclear Medicine and trained in an Internal Medicine residency, as well as in a masters program in medical physics in the University of California system.

John V. Crues, III, M.D. is a world-renowned radiologist. Dr. Crues has served as our Vice President and Medical Director since 2000. Dr. Crues plays a significant role as a musculoskeletal specialist for many of our patients as well as a resource for physicians providing services at our facilities. Dr. Crues received his M.D. at Harvard University, completed his internship at the University of Southern California in Internal Medicine, and completed a residency at Cedars-Sinai in Internal Medicine and Radiology. Dr. Crues has authored numerous publications while continuing to actively participate in radiological societies such as the Radiological Society of North America, American College of Radiology, California Radiological Society, International Society for Magnetic Resonance Medicine and the International Skeletal Society.

Stephen M. Forthuber became our Executive Vice President and Chief Operating Officer for Eastern Operations subsequent to the Radiologix acquisition. He joined Radiologix in January 2000 as Regional Director of Operations, Northeast. From July 2002 until January 2005 he served as Regional Vice President of Operations, Northeast and from February until December 2005 he was Senior Vice President and Chief Development Officer for Radiologix. Prior to

working at Radiologix, Mr. Forthuber was employed from 1982 until 1999 by Per-Se Technologies, Inc. and its predecessor companies, where he had significant physician practice management and radiology operations responsibilities.

Norman R. Hames has served as our Chief Operating Officer since 1996 and currently as our Executive Vice President and Chief Operating Officer Western Operations. Applying his 20 years of experience in the industry, Mr. Hames oversees all aspects of facility operations. His management team, comprised of regional directors, managers and sales managers, are responsible for responding to all of the day-to-day concerns of our facilities, patients, payors and referring physicians. Prior to joining our company, Mr. Hames was President and Chief Executive Officer of his own company, Diagnostic Imaging Services, Inc. (which we



TABLE OF CONTENTS

acquired), which owned and operated 14 multi-modality imaging facilities throughout Southern California. Mr. Hames gained his initial experience in operating imaging centers for American Medical International, or AMI, and was responsible for the development of AMI's single and multi-modality imaging centers.

Jeffrey L. Linden joined us in 2001 and currently serves as our Executive Vice President and General Counsel. Prior to joining us, Mr. Linden had been engaged in the private practice of law. He has lectured before numerous organizations on various topics, including the California State Bar, the American Society of Therapeutic Radiation Oncologists, the California Radiological Association, and the National Radiology Business Managers Association.

Mark D. Stolper has served as our Chief Financial Officer since 2004 and prior to that was an independent member of our Board of Directors. Prior to joining us, he had diverse experiences in investment banking, private equity, venture capital investing and operations. Mr. Stolper began his career as a member of the corporate finance group at Dillon, Read and Co., Inc., executing mergers and acquisitions, public and private financings and private equity investments with Saratoga Partners LLP, an affiliated principal investment group of Dillon Read. After Dillon Read, Mr. Stolper joined Archon Capital Partners, which made private equity investments in media and entertainment companies. Mr. Stolper received his operating experience with Eastman Kodak, where he was responsible for business development for Kodak's Entertainment Imaging subsidiary (\$1.5 billion in sales). Mr. Stolper was also co-founder of Broadstream Capital Partners, a Los Angeles-based investment banking firm focused on advising middle market companies engaged in financing and merger and acquisition transactions.

Michael Murdock has served as our Executive Vice President and Chief Development Officer since 2007. Mr. Murdock has spent the majority of his career in senior financial positions with healthcare companies, ranging in size from venture-backed startups to multi-billion dollar corporations, including positions with American Medical International (AMI) and its successor American Medical Holding, Inc., a publicly traded owner and operator of acute care facilities, that was acquired by National Medical Enterprises, now Tenet Healthcare. From 1999 through 2004, Mr. Murdock served as Chief Financial Officer of Dental One, a venture capital-backed owner and operator of 48 dental practices in Texas, Arizona, Colorado and Utah. From 2005 to 2006, Mr. Murdock served as Chief Financial Officer of Radiologix and joined the Company following the Radiologix acquisition. Mr. Murdock began his career in 1978 as an auditor with Arthur Andersen after receiving a B.S. degree from California State University, Northridge.

Marvin S. Cadwell served as a director of Radiologix, Inc. (Radiologix) between June 2002 and November 2006. He was appointed Chairman of the Board of Radiologix in December 2002 and served as Chairman of the Nominations and Governance Committee of the Board of Radiologix. He was the Radiologix interim Chief Executive Officer from September 2004 until November 2004. From December 2001 until November 2002, Mr. Cadwell served as Chief Executive Officer of SoftWatch, Ltd., an Israeli based company that provides Internet software. Since 2003, he has served as a director of ChartOne, Inc., a private company that provides patient chart management services to the healthcare industry.

Lawrence L. Levitt is a C.P.A. and since 1987 has been the President and Chief Financial Officer of Canyon Management Company, a company which manages a privately held investment fund. Mr. Levitt is also a director of River Downs Management Company, operator of a thoroughbred racetrack in Ohio.

Michael L. Sherman, M.D., F.A.C.R., served as a Radiologix director from 1997 until November 2006. He served as President of Advanced Radiology, P.A., a 90-person radiology practice located in Baltimore, Maryland, from 1995 to 2001, and subsequently as its board chairman and a consultant until his retirement from active practice in 2005. Radiologix has a contractual relationship with Advanced Radiology, P.A. Dr. Sherman has broad experience in the medical and business aspects of radiology. In addition, Dr. Sherman was a director of MedStar Health, a seven-hospital system in the Baltimore-Washington, D.C. market from 1998 until 2006. He continues to serve on the

board of MedStar Health's captive insurance company, Greenspring Financial Insurance Limited, Inc. Dr. Sherman is also a Senior Advisor for healthcare at FOCUS Enterprises, a Washington, D.C.-based investment banking firm.

David L. Swartz is a C.P.A. with 35 years of experience providing accounting and advisory services to clients. Mr. Swartz currently serves as the president of the California State Board of Accountancy. Between 1993 and 2008, Mr. Swartz served as the managing partner of Good, Swartz, Brown & Berns. Prior to this, Mr. Swartz served as managing partner and was on the national board of directors of a 50-office international accounting firm. Mr. Swartz is also a former CFO of a publicly-held shopping center and development company.

TABLE OF CONTENTS

## Director Independence

Our Board of Directors annually determines the independence of our directors in accordance with the independence requirements under the NASDAQ and the SEC rules. As a result of this review, our Board of Directors has determined that Marvin S. Cadwell, Lawrence L. Levitt, Michael L. Sherman, M.D. and David Swartz each qualify as independent directors in accordance with the NASDAQ and the SEC rules. Howard G. Berger, M.D., John V. Crues, III, M.D., and Norman R. Hames are each currently an executive officer of our company and therefore do not qualify as independent directors.

## Code of Ethics

We have adopted a written code of financial ethics applicable to our directors, officers and employees which is designed to deter wrongdoing and to promote:

honest and ethical conduct;

full, fair, accurate, timely and understandable disclosure in reports and documents that we file with the SEC and in our other public communications;

compliance with applicable laws, rules and regulations, including insider trading compliance; and accountability for adherence to the code and prompt internal reporting of violations of the code, including illegal or unethical behavior regarding accounting or auditing practices.

You may obtain a copy of our Code of Financial Ethics on our website at [www.radnet.com](http://www.radnet.com) under Investors Corporate Governance. The Audit Committee is responsible for reviewing the Code of Financial Ethics and amending as necessary. Any amendments will be disclosed on our website.

## Committees of the Board of Directors

We have two standing committees: the Audit Committee and the Compensation and Management Development Committee. The committees are comprised entirely of independent directors. The membership of each committee is as follows, with the chairperson listed first:

Audit Committee	Compensation and Management Development Committee
David L. Swartz	Lawrence L. Levitt
Marvin S. Cadwell	Michael Sherman, M.D.
Lawrence L. Levitt	David L. Swartz

### Audit Committee

The Audit Committee meets periodically, but at least once a quarter to review the company's financial statements and the adequacy of and compliance with the company's internal and external financial reporting processes. The Audit Committee held four meetings in 2009.

The Audit Committee's responsibilities include, among other things:

selecting and overseeing the engagement of a firm to serve as an independent registered public accounting firm to audit our financial statements;

helping to ensure the independence of our independent registered public accounting firm;  
discussing the scope and results of the audit with our independent registered public accounting firm;  
developing procedures for employees to anonymously submit concerns about questionable accounting or audit matters;  
meeting with our independent registered public accounting firm and our management to consider the adequacy of our internal accounting controls and audit procedures; and  
approving all audit and non-audit services to be performed by our independent registered public accounting firm.

88

---

## TABLE OF CONTENTS

The responsibilities of the Audit Committee are more fully described in the Audit Committee Charter. The Audit Committee reviews the charter at least annually and modifies it as needed. The Audit Committee Charter can be found on our website at [www.radnet.com](http://www.radnet.com) under Investors Corporate Governance.

The Board of Directors has determined that all members of the Audit Committee are independent and financially literate. Further, the Board of Directors has determined that Mr. Swartz and Mr. Levitt possess the requisite accounting and financial management expertise required under the NASDAQ Marketplace Rules and each qualifies as an audit committee financial expert as defined under the applicable SEC rules.

## **Compensation and Management Development Committee**

The Compensation and Management Development Committee meets at least annually and is responsible for approving the compensation of executive officers and certain senior management and oversees the company's management development programs, performance assessment of senior executives and succession planning. The Compensation and Management Development Committee held seven meetings in 2009.

The Compensation and Management Development Committee's responsibilities include, among other things:

reviewing and, as it deems appropriate, recommending to our Board of Directors the compensation of executive officers and certain other senior management;

reviewing and administering our stock and equity incentive plans;

reviewing and, as it deems appropriate, recommending to our Board of Directors, policies, practices, and procedures relating to the compensation of our directors, officers, and other managerial employees and the establishment and administration of our employee benefit plans; and

reviewing and approving the corporate goals and objectives relevant to CEO compensation and evaluating the CEO's performance in light of those goals.

As noted in Executive Compensation Compensation Discussion and Analysis, certain executive officers receive compensation from BRMG. The process employed by the Compensation and Management Development Committee in determining the appropriate compensation of executive officers is the same regardless of whether payments are made by the company or BRMG.

The responsibilities of the Compensation and Management Development Committee are more fully described in the Compensation and Management Development Committee Charter. The Compensation and Management Development Committee reviews the charter at least annually and modifies it as needed. The Compensation and Management Development Committee Charter can be found on our website at [www.radnet.com](http://www.radnet.com) under Investors Corporate Governance.

## **Compensation Committee Interlocks and Insider Participation**

The members of the Compensation and Management Development Committee are listed previously in Management Committees of the Board of Directors. No member of the Compensation and Management Development Committee has had a relationship with our company or any of our subsidiaries other than as directors and stockholders and no member has been an officer or employee of our company or any of our subsidiaries, a participant in a related person transaction or an executive officer of another entity, where one of our executive officers serves on the board of directors.



TABLE OF CONTENTS**EXECUTIVE COMPENSATION****Summary Compensation Table**

The table below summarizes the total compensation paid or earned by the principal executive officer, the principal financial officer and each of the three other most highly compensated executive officers for the fiscal year ended December 31, 2009 (collectively, the Named Executive Officers) of RadNet, Inc.

Name and Principal Position	Annual Compensation					Totals (\$)
	Year	Salary (\$) <sup>(1)</sup>	Bonus (\$)	Stock Awards (\$)	Option Awards (\$) <sup>(2)</sup>	
Howard G. Berger, M.D., Principal Executive Officer	2009	500,000 <sup>(3)</sup>				500,000
	2008	500,000 <sup>(3)</sup>				500,000
	2007	415,000 <sup>(3)</sup>				415,000
Mark D. Stolper, Executive Vice President and Principal Financial Officer	2009	350,000			366,290	716,290
	2008	348,846			240,865	589,711
	2007	300,000				300,000
Norman R. Hames Executive Vice President and Chief Operating Officer Western Operations	2009	354,875			219,774	574,649
	2008	353,986			240,865	594,851
	2007	303,330				303,330
John V. Crues, III, M.D., Vice President and Medical Director	2009	590,613 <sup>(3)</sup>			146,516	737,129
	2008	512,805 <sup>(3)</sup>				512,805
	2007	558,000 <sup>(3)</sup>				558,000
Jeffrey L. Linden, Executive Vice President and General Counsel	2009	409,600 <sup>(4)</sup>			219,774	629,374
	2008	400,000 <sup>(4)</sup>			240,865	640,865
	2007	400,000 <sup>(4)</sup>				400,000

The dollar amounts include the value of perquisites and other personal benefits, if any, for each of the Named Executive Officers, which were less than \$10,000 or 10% of salary and bonus, below the reporting thresholds established by the SEC.

(2) The amounts listed in this column represent the fair value of the award on the date of grant.

(3) Received from BRMG.

(4) Cohen & Lord, a professional corporation, a law firm with which Mr. Linden is associated, received \$410,000 in fees for the year ended December 31, 2009, \$398,128 for the year ended December 31, 2008, and \$411,859 in fees for the year ended December 31, 2007. Mr. Linden has specifically waived any interest in our fees paid to Cohen & Lord since becoming an officer.

TABLE OF CONTENTS**Grants of Plan-Based Awards**

The following table sets forth certain information with respect to grants of awards to our Named Executive Officers under our equity incentive plans during 2009.

Name	Grant Date	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards (\$/Sh) <sup>(1)</sup>	Grant Date Fair Value of Stock and Option Awards <sup>(2)</sup>
Norman R. Hames	06/15/09	150,000 <sup>(3)</sup>	\$ 2.40	\$ 219,774
John V. Crues, III, M.D.	06/15/09	100,000 <sup>(3)</sup>	\$ 2.40	\$ 146,516
Jeffrey L. Linden	06/15/09	150,000 <sup>(3)</sup>	\$ 2.40	\$ 219,774
Mark D. Stolper	06/15/09	250,000 <sup>(3)</sup>	\$ 2.40	\$ 366,290

(1) Exercise prices reflect the closing public market price on the date of grant.

For discussion regarding the valuation model and assumptions used to calculate the fair value of these option awards, see Note 11 to the consolidated financial statements included in our annual report on Form 10-K for the year ended December 31, 2009.

(3) Vests in equal increments on June 15, 2009, 2010 and 2011.

**Outstanding Equity Awards at Fiscal Year End**

The table below summarizes outstanding equity awards held by our Named Executive Officers at December 31, 2009.

Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$)	Option Expiration Date
Norman R. Hames	1,172,898 <sup>(1)</sup>		1.12	05/01/2013
	100,000 <sup>(2)</sup>	50,000 <sup>(2)</sup>	3.24	10/28/2013
	50,000 <sup>(2)</sup>	100,000 <sup>(2)</sup>	2.40	06/15/2014
John V. Crues, III, M.D.	250,000		.72	06/07/2010
	33,333 <sup>(2)</sup>	66,667 <sup>(2)</sup>	2.40	06/15/2014
Jeffrey L. Linden	37,500 <sup>(1)</sup>		.92	08/12/2011
	250,000 <sup>(1)</sup>		2.52	04/28/2012
	100,000 <sup>(2)</sup>	50,000 <sup>(2)</sup>	3.24	10/28/2013
	50,000 <sup>(2)</sup>	100,000 <sup>(2)</sup>	2.40	06/15/2014
Mark D. Stolper	100,000 <sup>(1)</sup>		3.10	07/11/2011



Edgar Filing: IDE IMAGING PARTNERS INC - Form S-4

100,000	(2)	50,000	(2)	3.24	10/28/2013
83,333	(2)	166,667	(2)	2.40	06/15/2014

- (1) Relates to nonqualified warrants issued to the Named Executive Officers.  
(2) Relates to options issued to the Named Executive Officers under the 2006 Plan.

91

---

TABLE OF CONTENTS**Option Exercises and Stock Vested**

There were no option exercises in the fiscal years ended December 31, 2008 and December 31, 2009 by the Named Executive Officers except as follows:

Name	Shares Acquired on Exercise	Value Realized <sup>(1)</sup>	Year
Mark D. Stolper	272,805	\$ 811,250	2009
Norman R. Hames	300,000	\$ 2,553,000	2008
Jeffrey L. Linden	100,000	\$ 233,500	2008

(1) The value realized equals the fair market value of the common stock acquired on the date of exercise minus the exercise price.

## **Pension Benefits, Nonqualified Defined Contribution and Other Deferred Compensation Plans**

We do not have any tax-qualified defined benefit plans or supplemental executive retirement plans that provide for payments or other benefits to our Named Executive Officers in connection with their retirement. We also do not have any non-qualified defined contribution plan or other deferred compensation plans that provide for payments or other benefits to our Named Executive Officers.

## **Employment Agreements**

We entered into an employment agreement with Mr. Linden on April 16, 2001, as amended on January 30, 2004, for an initial five-year term that renews automatically for successive one year terms unless otherwise terminated by either party. The employment agreement provides that Mr. Linden's base salary is \$350,000, which has subsequently been amended to \$400,000, and also provides that Mr. Linden is eligible for severance benefits as described below under the heading Potential Payments Upon Termination or Change in Control Severance Agreements. Mr. Linden currently serves as Executive Vice President and General Counsel.

We entered into an employment agreement with Mr. Hames on May 1, 2001, as amended on January 30, 2004 for an initial three-year term that renews automatically for successive one year terms unless otherwise terminated by either party. The employment agreement provides that Mr. Hames' base salary is \$225,000, which has subsequently been amended to \$350,000, and also provides that Mr. Hames is eligible for severance benefits as described below under the heading Potential Payments Upon Termination or Change in Control Severance Agreements. Mr. Hames currently serves as Executive Vice President and Chief Operating Officer Western Operations.

We entered into an employment agreement with Mr. Stolper effective as of January 1, 2009, under which he shall serve as our Executive Vice President and Chief Financial Officer until the agreement is terminated by either party.

The employment agreement provides that Mr. Stolper's initial base salary is \$350,000 (after deducting required withholdings), that he is eligible to participate in all of our bonus or incentive compensation plans generally available to our corporate officers and that he is entitled to certain benefits upon a change-in-control as described below under the heading Potential Payments Upon Termination or Change in Control Change-in-Control Arrangements.

## Potential Payments Upon Termination or Change in Control

### Payments Made Upon Termination and Retirement

Regardless of the manner in which the employment of a Named Executive Officer is terminated, he is entitled to receive amounts earned during his term of employment. Such amounts include:

non-equity incentive compensation earned, to the extent vested;  
equity awarded pursuant to our 2006 Plan, to the extent vested; and  
unused vacation pay.

## TABLE OF CONTENTS

### **Payments Made Upon Death or Disability**

In the event of the death or disability of a Named Executive Officer, no additional benefits other than those listed under the heading **Payments Made Upon Termination and Retirement** above, will be paid to our Named Executive Officers.

### **Severance Agreements**

Under each employment agreement discussed above under the heading **Employment Agreements**, we may terminate such Named Executive Officer's employment at any time and for any reason and each Named Executive Officer may resign at any time and for any reason. In the event of a termination without cause by the company (i) Mr. Hames is entitled to receive a severance payment in an amount equal to three times his then annual compensation, or approximately \$1,050,000 based upon his compensation in 2009, (ii) Mr. Linden is entitled to receive a severance payment in an amount equal to five times his then annual compensation, or approximately \$2,000,000 based upon his compensation in 2009 and (iii) Mr. Stolper is entitled to receive a severance payment in an amount equal to two times his then annual compensation, or approximately \$700,000 based upon his compensation in 2009. Messrs. Hames and Linden are also entitled to the severance payment upon their election to terminate employment.

Dr. Berger has a severance arrangement with BRMG. Under this arrangement, in the event of termination without cause by either party, Dr. Berger is entitled to receive a severance payment in an amount equal to five times his then annual compensation, or approximately \$2,500,000 based upon his compensation in 2009. Additionally, in the event of termination for cause by BRMG, Dr. Berger is entitled to receive a severance payment in an amount equal to one year of his then annual compensation, or approximately \$500,000 based upon his compensation in 2009.

### **Change-in-Control Arrangements**

None of our Named Executive Officers is entitled to payment of any benefits upon a change-in-control of the company; however all options, warrants and any other deferred equity compensation then granted to Mr. Stolper which is unvested at the time of such change-in-control shall immediately vest.

### **Overview of Director Compensation**

We use cash and stock based incentive compensation to attract and retain qualified candidates to serve on our board. In setting director compensation, we consider the significant amount of time that our directors expend in fulfilling their duties to our company as well as the skill level required by the members of our board.

### **Cash Compensation Paid to Board Members**

For the fiscal year ended December 31, 2009, members of our board who were not employees of the company received annual compensation of \$25,000. Additionally, members of our board who are not employees of the company are entitled to receive an attendance fee for board meetings of \$1,000 per meeting and committee meetings of \$750 per meeting. Our Chairman of the Audit Committee receives \$10,000 per year for serving in such capacity and our Chairman of the Compensation and Management Development Committee receives \$5,000 per year for serving in such capacity. Directors who are our employees received no additional compensation for their services as directors.

## **Stock Based Incentive Compensation**

For the fiscal year ended December 31, 2009, members of our board who were not employees of the company each received options to purchase 56,250 shares of common stock exercisable at the closing price of the company's common stock in the public market on the date of issuance. The shares are fully vested upon issuance.

TABLE OF CONTENTS**Director Compensation**

The table below summarizes the cash and non-cash compensation earned for the fiscal year ended December 31, 2009 by each of our current non-employee directors.

Name	Fees Earned or Paid in Cash (\$)	Option Awards (\$) <sup>(1)</sup>	All Other Compensation (\$)	Total (\$)
Marvin S. Cadwell	34,750	71,489		106,239
Lawrence L. Levitt	42,750	71,489		114,239
Michael L. Sherman, M.D.	34,000	71,489		105,489
David L. Swartz	47,750	66,510		114,260

The amount shown is the total dollar amount of the fair value of the award on the date of grant using the Black Scholes pricing model. On January 2, 2009, Messrs. Cadwell, Levitt and Sherman were each granted 25,000 stock options, fully vested as of the grant date, with an exercise price of \$3.65 per share, a fair value of \$1.66 per share (using the Black Scholes pricing model) and a five-year term. On February 2, 2009, Mr. Swartz was granted (1) 25,000 stock options, fully vested as of the grant date, with an exercise price of \$3.18, a fair value of \$1.46 per share (using the Black Scholes pricing model) and a five-year term. On June 15, 2009, Messrs. Cadwell, Levitt, Sherman and Swartz were each granted 31,250 stock options, fully vested as of the grant date, with an exercise price of \$2.40 per share, a fair value of \$0.96 per share (using the Black Scholes pricing model) and a five-year term.

**Risk Consideration in Our Compensation Programs**

Our Compensation and Management Development Committee has discussed the concept of risk as it relates to our compensation program and does not believe our compensation program encourages excessive or inappropriate risk taking. We structure our pay to consist of primarily fixed compensation with cash and non-cash incentive programs.

The base salary portion of compensation is designed to provide a steady income regardless of our stock price performance, so that our executive officers do not feel pressured to focus exclusively on stock price performance to the detriment of other important aspects of our business. Our equity incentive grants have traditionally been structured to provide longer term incentive. Our Compensation and Management Development Committee believes our compensation programs strikes a balance between providing secure compensation and appropriate short term and long term incentives, such that our executive officers are not encouraged to take unnecessary or excessive risks.

**Equity Compensation Plan Information**

We have two stock incentive plans: our 2000 Long-Term Incentive Plan (the 2000 Plan ) and our 2006 Equity Incentive Plan (the 2006 Plan ). Each of the 2000 Plan and the 2006 Plan are administered by our Compensation and Management Development Committee.

We have reserved 1,000,000 shares of common stock for issuance under our 2000 Plan. As of June 30, 2010, there were 151,000 options outstanding under the 2000 Plan. Upon approval of the 2006 Plan, we ceased granting options under the 2000 Plan.

We have reserved 6,500,000 shares of common stock for issuance under our 2006 Plan. The 2006 Plan provides for

the grant of stock options (incentive and non-qualified), stock awards, stock appreciation rights and cash awards. If an award is cancelled, terminates, expires, or lapses for any reason without having been fully exercised or vested, or is settled for less than the full number of shares of common stock represented by such award actually being issued, the unvested, cancelled, or unissued shares of common stock generally will be returned to the available pool of shares reserved for issuance under the 2006 Plan. Notwithstanding the foregoing, the aggregate number of shares of common stock that may be issued under the 2006 Plan upon the exercise of incentive stock options shall not be increased for restricted shares that are forfeited or repurchased. Notwithstanding anything in the 2006 Plan, or any award agreement to the contrary, shares attributable to awards transferred under any award transfer program shall not be again available for grant under the 2006 Plan. In addition, if we experience a stock dividend, reorganization, or other change in our capital structure, the administrator may, in its discretion, adjust the number of shares available for issuance under the 2006 Plan and any outstanding awards as appropriate to reflect the stock dividend or other change. The share number

TABLE OF CONTENTS

limitations included in the 2006 Plan will also adjust appropriately upon such event. As of June 30, 2010, there were 4,823,750 options outstanding under the 2006 Plan.

The following table sets forth, for each of the company's equity compensation plans, the number of shares of common stock subject to outstanding options and stock awards, the weighted-average exercise price of outstanding options, and the number of shares remaining available for future award grants as of June 30, 2010.

Plan Category	(A) Number of Shares to Be Issued Upon Exercise of Outstanding Options And Rights (#)	(B) Weighted Average Exercise Price of Outstanding Options (\$)	(C) Number of Shares Remaining Available For Future Issuance Under Equity Incentive Plans (Excluding Shares Reflected in Column (A))
Equity incentive plans approved by stockholders	4,974,750	3.83	1,676,250
Equity incentive plans not approved by stockholders <sup>(1)</sup>	2,742,898	2.42	
<b>TOTAL</b>	<b>7,717,648</b>		

(1) Consists of shares available upon exercise of warrants granted under various agreements.

The 2000 Plan and 2006 Plan are administered by the Compensation and Management Development Committee, which has the power to determine matters related to outstanding option awards under the Plans, including conditions of vesting and exercisability. Options granted under the Plans expire no later than 10 years from the grant date. Options generally vest in increments over three or five years from the date of grant. Options granted to non-employee directors however are fully vested upon issuance.

## Compensation Discussion and Analysis

This discussion describes our compensation program for the five Named Executive Officers, namely, our principal executive officer, our principal financial officer and the three other most highly compensated executive officers for the year ended December 31, 2009.

### Compensation Philosophy

We compensate our executive officers through a mix of base salary, bonus and equity compensation. We intend that our compensation decisions will attract and retain leaders and reward them for achieving the company's strategic initiatives and objective measures of success. Our compensation policies are designed to be competitive with comparable employers and to align management's incentives with both near term and long-term interests of our stockholders. The following principles influence and guide our compensation decisions:



## **We Believe in a Pay for Performance Culture**

At the core of our compensation philosophy is our guiding belief that pay should be directly linked to performance. A substantial portion of executive officer compensation is contingent on, and variable with, achievement of objective corporate and/or individual performance objectives.

### **Compensation Decisions Should Promote the Interests of Stockholders**

Compensation should focus management on achieving strong short-term (annual) performance in a manner that supports and ensures our long-term success and profitability. We believe that stock options create long-term incentives that align the interest of management with the long-term interest of stockholders.

### **Compensation and Performance Pay Should Reflect Position and Responsibility**

Total compensation and accountability should generally increase with position and responsibility. Consistent with this philosophy:

95

---

## TABLE OF CONTENTS

Total compensation is higher for individuals with greater responsibility and greater ability to influence the company's achievement of targeted results and strategic initiatives.

As position and responsibility increases, a greater portion of the executive officer's total compensation may be comprised of performance-based pay contingent on the achievement of performance objectives.

Equity-based compensation is higher for persons with higher levels of responsibility, making a significant portion of their total compensation dependent on long-term stock appreciation.

### **Internal Pay Equity**

We believe that internal equity is an important factor to be considered in establishing compensation for the officers. We have not established a policy regarding the ratio of total compensation of the Chief Executive Officer to that of the other officers, but we do review compensation levels to ensure that appropriate equity exists. We intend to continue to review internal compensation equity and may adopt a formal policy in the future, if we deem such a policy to be appropriate.

### **Compensation Should be Reasonable and Responsible**

It is essential that our overall compensation levels be sufficiently competitive to attract talented leaders and motivate those leaders to achieve superior results. At the same time, we believe that compensation should be set at responsible levels. Our executive compensation programs are intended to be consistent with our constant focus on controlling costs.

### **Compensation Disclosures Should be Clear and Complete**

We believe that all aspects of executive compensation should be clear, comprehensible and promptly disclosed in plain English. We believe that compensation disclosures should provide all of the information necessary to permit stockholders to understand our compensation philosophy, our compensation-setting process and how and how much our executives are paid.

## **Board Process**

### **Compensation and Management Development Committee**

Generally, equity grants are based upon the recommendation of our Chief Executive Officer, with the Compensation and Management Development Committee retaining ultimate authority to accept, reject or modify such recommendation.

The Compensation and Management Development Committee has been delegated the authority by our Board of Directors to approve all compensation and awards to executive officers. With respect to equity compensation awarded to the executive officers and others, the Compensation and Management Development Committee acts as the administrator under our 2006 Equity Incentive Plan and has the authority under that plan to grant restricted stock or stock options.

Our Compensation and Management Development Committee meets as often as necessary to perform its duties and responsibilities. The Committee meets with executive management, including our Chief Executive Officer, and conducts meetings in executive session.

The Committee's process begins with determining whether we will establish individual and corporate performance

objectives for senior executive officers in each fiscal year. The Committee engages in an active dialogue with the Chief Executive Officer concerning the selection of strategic objectives and targets for performance based compensation. Corporate performance objectives may be established on the basis of a targeted return on capital employed for the company or a particular business unit, or on the basis of another operating metric.

The Committee meets in executive session each year to evaluate the performance of the Named Executive Officers, to determine if there will be changes in their annual compensation, to establish annual performance objectives for the current fiscal year, and to consider and approve any grants to them of equity incentive compensation.

## TABLE OF CONTENTS

### **Management's Role in the Compensation-Setting Process**

Management plays a significant role in the compensation-setting process. The most significant aspects of management's role are:

establishing the operating budget which forms the basis for performance objectives; and making recommendations to the Compensation and Management Development Committee on salary levels and option awards.

The Chief Executive Officer works with the Compensation and Management Development Committee in establishing the agenda for Committee meetings. Management also prepares meeting information for each Compensation and Management Development Committee meeting.

The Chief Executive Officer also participates in Committee meetings at the Committee's request to provide:

background information regarding the company's strategic objectives; his evaluation of the performance of the senior executive officers, including accomplishments, areas of strength and weakness; and

compensation recommendations as to senior executive officers (other than himself).

#### **Committee Advisors**

Under its charter, the Compensation and Management Development Committee is granted, where appropriate, the authority to hire and fire advisors and compensation consultants. The company is obligated to pay for the advisors and consultants. These advisors will report directly to the Compensation and Management Development Committee. For the year ended December 31, 2009, the Compensation and Management Development Committee did not retain any outside compensation consultants.

#### **Benchmarking**

Our Compensation and Management Development Committee does not base its compensation decisions on benchmarking against a specific peer group of companies. However, the Committee recognizes that our compensation practices must be competitive in the marketplace. Accordingly, it will periodically gather information concerning pay practices at other companies. This marketplace information is only one of the many factors that the Committee considers in assessing the reasonableness of compensation.

### **Elements of Executive Compensation**

#### **Base Salary**

Base pay is a critical element of executive compensation. We seek to establish a compensation level that is appropriate recognizing the executive's achievements and contributions. Base pay also provides executives with a secure level of monthly income that is not at risk, and our Compensation and Management Development Committee believes that this gives our executives the ability to focus on the longer term and avoid the urgency which could otherwise drive an executive to take unnecessary risks. In determining base salaries our Compensation and Management Development Committee considers the executive's qualifications and experience, scope of responsibilities and future potential, the goals and objectives established for the executive, the executive's past performance, competitive salary practices at similar companies, internal pay equity and the tax deductibility of base salary.

### **Equity Based Compensation**

We believe that equity compensation is the most effective means of creating a long-term link between the compensation provided to officers and other key management personnel with gains realized by the stockholders.

Our stock compensation plans have been established to provide certain of our employees, including our Named Executive Officers, with incentives to help align those employees' interests with the interests of our stockholders. Our stock compensation plans have provided the principal method for our Named Executive Officers to acquire equity or equity linked interests in our company.

97

---

## TABLE OF CONTENTS

We have elected to use stock options as our primary equity compensation vehicle. All stock options incorporate the following features:

the term of the grant does not exceed 10 years;  
the grant price is not less than the market price on the date of grant;  
grants do not include reload provisions;  
repricing of options is prohibited, unless approved by the stockholders; and  
options generally vest over a term of years (3 to 5 years) beginning with the first anniversary of the date of grant.  
We continue to use stock options as a long-term incentive vehicle because:

Stock options align the interests of executives with those of the stockholders, support a pay-for-performance culture, foster employee stock ownership and focus the management team on increasing value for the stockholders; and

The vesting period encourages executive retention and the preservation of stockholder value.

In determining the number of options to be granted to senior executive officers, we take into account the individual's position, scope of responsibility, ability to affect profits and stockholder value and the individual's historic and recent performance and the value of stock options in relation to other elements of total compensation.

### **Additional Benefits**

Our executive officers, including our Named Executive Officers, participate in other employee benefit plans generally available to all employees on the same terms as similarly situated employees.

### **Change in Control and Severance Payments**

The employment agreements of some of our Named Executive Officers provide them benefits if their employment is terminated (other than for misconduct), including termination following a change in control. The details and amount of this benefit are set forth below under Compensation of Directors and Executive Officers Severance Agreements Change-in-Control Arrangements.

### **Deductibility of Executive Compensation**

Our Compensation and Management Development Committee reviews and considers the deductibility of executive compensation under Section 162(m) of the Internal Revenue Code, which provides that we may not deduct compensation of more than \$1,000,000 that is paid to certain individuals. In as much as no executive is currently paid an amount near the \$1,000,000 threshold, our Compensation and Management Development Committee believes that compensation paid to our Named Executive Officers is generally fully deductible for federal income tax purposes.

However, in certain situations, certain of the independent members of our Compensation and Management Development Committee may approve compensation that will not meet these requirements in order to ensure competitive levels of total compensation of our Named Executive Officers.

### **2009 Compensation Determinations**

The Compensation and Management Development Committee uses its judgment and discretion in determining the amount of base salary for each Named Executive Officer, which is reviewed on an annual basis. For the year ended December 31, 2009, the Compensation and Management Development Committee reviewed base salaries and did not increase base salaries for the Named Executive Officers for the next fiscal year.

In addition to reviewing base salary compensation, the Compensation and Management Development Committee also considers the need for option grants to supplement overall compensation. In 2009, the Compensation and Management Development Committee elected to make an equity grant of stock options to Messrs. Hames, Linden, Stolper and Crues. Messrs. Hames and Linden were awarded options to purchase 150,000 shares of our common stock, Mr. Stolper was awarded options to purchase 250,000 shares of our

TABLE OF CONTENTS

common stock and Dr. Crues was awarded options to purchase 100,000 shares of our common stock. The Compensation and Management Development Committee elected to make these awards in order to provide each of these Named Executive Officers with a more significant equity stake in the company and a greater incentive to contribute to our long term success. No equity awards were granted to Dr. Berger who owns approximately 15% of our common stock. The Compensation and Management Development Committee determined that he has a sufficient equity interest in the company to align his interest with other stockholders.



TABLE OF CONTENTS

# SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table presents information concerning the beneficial ownership of the shares of common stock of RadNet, Inc. as of August 9, 2010, by:

each person we know to be the beneficial owner of 5% or more of our outstanding shares of common stock, each of our Named Executive Officers and directors, and all of our current executive officers and directors as a group.

Unless otherwise noted below, the address of each beneficial owner listed in the table is c/o RadNet, Inc., 1510 Cotner Ave., Los Angeles, California 90025.

Except as indicated by the footnotes below, we believe, based on the information furnished to us, that the persons and entities named in the table below have sole voting and investment power with respect to all shares of common stock that they beneficially own, subject to applicable community property laws.

Applicable percentage ownership is based on 36,979,725 shares of common stock outstanding on August 9, 2010 (excluding treasury shares). We have determined beneficial ownership in accordance with the rules of the SEC. In computing the number of shares of common stock beneficially owned by a person and the percentage ownership of that person, we deemed as outstanding shares of common stock subject to options or warrants held by that person that are currently exercisable or exercisable within 60 days of August 9, 2010. We did not deem these shares outstanding, however, for the purpose of computing the percentage ownership of any other person.

Name of Beneficial Owner	Shares Beneficially Owned	Percent of Shares Beneficially Owned
5% or Greater Stockholders		
James E. Flynn <sup>(1)</sup>	3,554,000	9.8 %
Directors and Named Executive Officers		
Howard G. Berger, M.D. <sup>(2)</sup>	5,405,140	14.6 %
Marvin S. Cadwell	150,178 <sup>(3)</sup>	*
John V. Crues, III, M.D.	678,708 <sup>(4)</sup>	1.8 %
Norman R. Hames	1,601,237 <sup>(5)</sup>	4.3 %
Lawrence L. Levitt	181,250 <sup>(6)</sup>	*
Michael L. Sherman, M.D.	191,765 <sup>(7)</sup>	*
David L. Swartz	216,250 <sup>(8)</sup>	*
Jeffrey L. Linden	1,235,000 <sup>(9)</sup>	3.3 %
Mark D. Stolper	677,205 <sup>(10)</sup>	1.8 %
Stephen M. Forthuber	875,000 <sup>(11)</sup>	2.4 %
Michael N. Murdock	173,333 <sup>(12)</sup>	*
All directors and executive officers as a group (11 persons)	11,385,066 <sup>(13)</sup>	30.8 %

\*

Represents less than 1%.

Edgar Filing: IDE IMAGING PARTNERS INC - Form S-4

According to the Schedule 13G filing with the SEC, Mr. Flynn is the beneficial owner of shares of common stock owned by various entities, including Deerfield Capital, L.P., and Deerfield Management Company, L.P. and he (1) maintains shared voting and investment power over the shares of our common stock held by these entities. The address for Mr. Flynn as set forth in the Schedule 13G filing is 780 Third Avenue, 37th Floor, New York, New York 10017.

As a result of his stock ownership and positions as president and director, Dr. Berger may be deemed to be a (2) controlling person of our company. Represents shares held by the Howard and Fran Berger Family Trust, to which Dr. Berger and Mrs. Berger are trustees.

100

---

TABLE OF CONTENTS

- (3) Beneficial ownership includes 131,250 shares subject to options exercisable within 60 days of August 9, 2010.
- (4) Beneficial ownership includes 100,000 shares subject to options and warrant exercisable within 60 days of August 9, 2010.
- (5) Beneficial ownership includes 1,576,237 shares subject to options and warrants exercisable within 60 days of August 9, 2010.
- (6) Beneficial ownership includes 156,250 shares subject to options and warrants exercisable within 60 days of August 9, 2010.
- (7) Beneficial ownership includes 131,250 shares subject to options exercisable within 60 days of August 9 August 9, 2010.
- (8) Beneficial ownership includes 156,250 shares subject to options and warrants exercisable within 60 days of August 9, 2010.
- (9) Beneficial ownership includes 687,500 shares subject to options and warrants exercisable within 60 days of August 9, 2010.
- (10) Beneficial ownership includes 600,000 shares subject to options and warrants exercisable within 60 days of August 9, 2010.
- (11) Beneficial ownership includes 875,500 shares subject to options exercisable within 60 days of August 9, 2010.
- (12) Beneficial ownership includes 173,333 shares subject to options exercisable within 60 days of August 9, 2010.
- (13) Beneficial ownership includes 4,414,237 shares subject to options and warrants exercisable within 60 days of August 9, 2010.

101

---

TABLE OF CONTENTS

# **CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS**

## **Review and Approval of Related Party Transactions**

As a matter of policy, the Board of Directors of RadNet, Inc. reviews any transaction in which we are proposed to be a party, directly or indirectly, and any of the following persons or entities is or is entitled to be a party, directly or indirectly, to the transaction or any director has a material financial interest in the transaction: (i) any of our executive officers or any related person of any such officer or a director, (ii) any person or entity of which the executive officer or director or any related person is the owner of more than 5% of the securities, (iii) any person or entity that controls one or more of the persons specified in subparagraph (ii) or a person that is controlled by, or is under common control with one or more of the persons specified in subparagraph (ii), or (iv) an individual who is a general partner, principal or employer of a director. Additionally, any transaction which would be required to be disclosed pursuant to Item 404 of Regulation S-K is reviewed by the Board of Directors.

## **Related Party Transactions**

Howard G. Berger, M.D. is our President and Chief Executive Officer, Chairman of the Board, and owns approximately 15% of our outstanding common stock. Dr. Berger also owns, indirectly, 99% of the equity interests in BRMG. BRMG provides all of the professional medical services at most of our California facilities under a management agreement and contracts with various other independent physicians and physician groups to provide all of the professional medical services at most of our other California facilities. We obtain professional medical services from BRMG in California, rather than providing 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 this close relationship with Dr. Berger and BRMG, we believe that we are able to better ensure that professional medical services are 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 practice groups.

Under our management agreement with BRMG, which expires on January 1, 2014, BRMG pays us, as compensation for the use of our facilities and equipment and for our services, a percentage of the gross amounts collected for the professional services it renders. The percentage, which was 79%, at December 31, 2009, is adjusted annually, if necessary, to ensure that the parties receive fair value for the services they render. In operation and historically, the annual revenue of BRMG from all sources closely approximates its expenses, including Dr. Berger's compensation, fees payable to us and amounts payable to third parties. For administrative convenience and in order to avoid inconveniencing and confusing our payors, a single bill is prepared for both the professional medical services provided by the radiologists and our non-medical, or technical, services, generating a receivable for BRMG. BRMG is a guarantor under the term loan facility and revolving credit facility we entered into in April 2010.

Dr. Crues and Dr. Berger receive all of their salary from BRMG.

Cohen & Lord, a professional corporation, a law firm with which Mr. Linden is associated, received \$410,000 in fees during 2009. Mr. Linden has specifically waived any interest in our fees since becoming an officer of RadNet, Inc.

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.

## **Indemnification Agreements**

We have indemnification agreements with each of our directors and certain officers in addition to provisions which are reflected in our certificate of incorporation and bylaws which require us to indemnify our directors and officers to the fullest extent permitted by Delaware law.

102

---

TABLE OF CONTENTS

## DESCRIPTION OF OTHER INDEBTEDNESS

*The following summary of other indebtedness does not purport to be complete and is qualified in its entirety by reference to the agreements described, including the definitions of certain capitalized terms used in this section, copies of which are available upon request.*

### General

On April 6, 2010, the Issuer entered into a new Credit and Guaranty Agreement (the "Credit Agreement") with Barclays Capital, Deutsche Bank Securities Inc., GE Capital Markets, Inc. and Royal Bank of Canada, as joint bookrunners and joint lead arrangers, Barclays Bank PLC, as administrative agent and collateral agent, and certain other lenders, whereby we obtained \$385,000,000 in senior secured first lien bank financing, consisting of (i) a \$285,000,000, six-year term loan facility and (ii) a \$100,000,000, five-year revolving credit facility, including a swing line loan subfacility and a letter of credit subfacility (the "New Credit Facilities"). The New Credit Facilities include uncommitted incremental credit facilities for up to \$75,000,000 in additional principal amount of term loans or revolving credit commitments, subject to the satisfaction of certain conditions.

We will pay a commitment fee equal to 0.75% per annum (or 0.50% per annum if certain conditions are met) on the undrawn portion available under the revolving credit facility. We also will pay variable per annum fees in respect of outstanding letters of credit.

### Prepayments

Loans will be required to be prepaid with:

100% of the net proceeds of asset sales or other dispositions of property by us, our parent company or our subsidiaries, subject to certain limited exceptions, unless such proceeds are reinvested in long-term assets useful in our business within 180 days of receipt of such proceeds or, if committed to reinvestment within such 180-day period, reinvested within 90 days thereafter;

100% of the net proceeds from insurance and condemnation recoveries received by us, our parent company or our subsidiaries, subject to certain limited exceptions, unless such proceeds are reinvested in long-term assets useful in our business within 180 days of receipt of such proceeds or, if committed to reinvestment within such 180-day period, reinvested within 90 days thereafter;

100% of the net proceeds from the issuance or incurrence of debt by us, our parent company, our subsidiaries or certain of our affiliates, other than certain indebtedness otherwise permitted under the Credit Agreement;

50% of annual consolidated excess cash flow; and

100% of the net proceeds of certain extraordinary receipts received by us, our parent company or our subsidiaries, such as but not limited to pension plan reversions, indemnity payments, purchase price adjustments, tax refunds, judgments and litigation settlements.

### Interest

The revolving credit and term loan facilities bear interest through maturity: (1) if a Base Rate Loan, then at the sum of the Base Rate (as defined below) plus the applicable margin, or (2) if a Eurodollar Rate Loan, then at the sum of the Adjusted Eurodollar Rate (as defined below) plus the applicable margin. The swing line loan subfacility will bear interest at the sum of the Base Rate plus the applicable margin for Revolving Loans that are Base Rate loans.

The Base Rate will be the highest of: (1) the Prime Rate, (2) the rate which is 0.5% in excess of the Federal Funds Effective Rate (defined as a rate per annum equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published for such day by the Federal Reserve Bank of New York, or, if such rate is not so published, the average rate charged to the administrative agent, as a lender, on such day as determined by the administrative agent), (3) 3.00% and (4) 1.00% in excess of the one-month Adjusted Eurodollar Rate at such time.

103

---

## TABLE OF CONTENTS

The Adjusted Eurodollar Rate will be the higher of (1) the London interbank offered rate, adjusted for statutory reserve requirements, for the respective interest period, as determined by the administrative agent and (2) 2.00%.

The applicable margin is (1) (a) with respect to Tranche B Term Loans that are Eurodollar Rate Loans, 3.75% per annum and (b) with respect to Tranche B Term Loans that are Base Rate Loans, 2.75% per annum; and (2) (a) with respect to Revolving Loans that are Eurodollar Rate Loans, 3.75% per annum and (b) with respect to Revolving Loans and Swing Line Loans that are Base Rate Loans, 2.75% per annum.

## **Guarantees and Collateral**

The obligations under the New Credit Facilities are guaranteed by our parent company, all of our direct and indirect wholly owned domestic subsidiaries (excluding joint ventures) and certain affiliated companies. The obligations under the New Credit Facilities and the guarantees are secured by a security interest in all of our, our parent company's, our subsidiaries and certain affiliates' tangible and intangible property, and by a pledge of (a) all intercompany debt, (b) all of the equity interests and limited liability company interests of our direct and indirect domestic subsidiaries, which we now own or hereafter acquire, and (c) (i) 100% of the non-voting equity interests (if any) of any foreign subsidiaries that we may acquire or form in the future and (ii) 66% of the voting equity interests of any foreign subsidiaries that we may acquire or form in the future to the extent the pledge of any greater percentage would result in material adverse tax consequences to us.

## **Covenants**

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

## **Financial Covenants**

The Credit Agreement contains financial covenants including a minimum interest coverage ratio, a maximum total leverage ratio and a limit on annual capital expenditures. These ratios are set at levels that are consistent with our projections of financial performance. Our failure to comply with these covenants could permit the lenders under the New Credit Facilities to declare all amounts borrowed, together with accrued interest and fees, to be immediately due and payable.

## **Events of Default**

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



TABLE OF CONTENTS

## THE EXCHANGE OFFER

### General

We are offering to exchange a like principal amount of exchange notes for any or all outstanding notes on the terms and subject to the conditions set forth in this prospectus and accompanying letter of transmittal. We refer to the offer as the exchange offer. You may tender some or all of your outstanding notes pursuant to the exchange offer.

As of the date of this prospectus, \$200.0 million aggregate principal amount of 10 3/8% senior notes due 2018 is outstanding. This prospectus, together with the letter of transmittal, is first being sent to all registered holders of outstanding notes known to us on or about , 2010. Our obligation to accept outstanding notes for exchange pursuant to the exchange offer is subject to the satisfaction or waiver of certain conditions set forth under Conditions to the Exchange Offer below. We anticipate that each of the conditions will be satisfied and that no waivers will be necessary.

### Purpose and Effect of the Exchange Offer

Radnet Management, Inc., RadNet, Inc. and the other registrant guarantors of the notes have entered into a registration rights agreement with the initial purchasers of the outstanding notes in which they agreed, under certain circumstances, to use their reasonable best efforts to file a registration statement relating to offers to exchange the outstanding notes for exchange notes and thereafter cause the registration statement to become effective under the Securities Act no later than 360 days following the closing date of the issuances of the outstanding notes. The exchange notes will have terms identical in all material respects to the outstanding notes, except that the exchange notes will not contain terms with respect to transfer restrictions, registration rights and additional interest for failure to observe certain obligations in the registration rights agreement. The outstanding notes were issued on April 6, 2010.

Pursuant to the registration rights agreement, Radnet Management, Inc. (the Issuer ), RadNet, Inc. ( Parent ) and the other registrant guarantors (together with Parent, the Guarantors ) agreed to file with the SEC this registration statement on the appropriate form under the Securities Act with respect to the exchange notes. Upon the effectiveness of the registration statement, the Issuer and the Guarantors will offer to the holders of Entitled Securities (as defined below) pursuant to this exchange offer (as defined in the registration rights agreement) who are able to make certain representations the opportunity to exchange their Entitled Securities for exchange notes.

If:

- (1) the Issuer and the Guarantors are not  
(a) required to file the exchange offer registration statement; or  
(b) permitted to consummate the exchange offer because the exchange offer is not permitted by applicable law or SEC policy; or
- (2) any holder of Entitled Securities notifies the Issuer prior to the 20<sup>th</sup> business day following consummation of the exchange offer that:
  - (a) it is prohibited by law or SEC policy from participating in the exchange offer;  
it may not resell the exchange notes acquired by it in the exchange offer to the public without delivering a
  - (b) prospectus and the prospectus contained in this registration statement is not appropriate or available for such resales; or
  - (c)

it is a broker-dealer and owns notes acquired directly from Issuer or an affiliate of the Issuer, the Issuer and the Guarantors will file with the SEC a shelf registration statement to cover resales of the notes by the holders of the notes who satisfy certain conditions relating to the provision of information in connection with the shelf registration statement.

105

---

TABLE OF CONTENTS

For purposes of the preceding, Entitled Securities means each note until the earliest to occur of:

- (1) the date on which such note has been exchanged by a person other than a broker-dealer for an exchange note in the exchange offer;  
following the exchange by a broker-dealer in the exchange offer of a note for an exchange note, the date on which
- (2) such exchange note is sold to a purchaser who receives from such broker-dealer on or prior to the date of such sale a copy of the prospectus contained in this registration statement;
- (3) the date on which such note has been effectively registered under the Securities Act and disposed of in accordance with the shelf registration statement; or
- (4) the date on which such note is actually sold pursuant to Rule 144 under the Securities Act; provided that a note will not cease to be an Entitled Security for purposes of the exchange offer by virtue of this clause (4).

The registration rights agreement provides that:

- (1) the Issuer and the Guarantors will use all commercially reasonable efforts to have this registration statement declared effective by the SEC on or prior to 360 days after the closing of this offering;
- (2) unless the exchange offer would not be permitted by applicable law or SEC policy, the Issuer and the Guarantors will:
  - (a) commence the exchange offer; anduse all commercially reasonable efforts to issue on or prior to 30 business days, or longer, if required by applicable
- (b) securities laws, after the date on which this registration statement was declared effective by the SEC, exchange notes in exchange for all notes tendered prior thereto in the exchange offer; and
- (3) if obligated to file the shelf registration statement, the Issuer and the Guarantors will use all commercially reasonable efforts to file the shelf registration statement with the SEC on or prior to 30 days after such filing obligation arises and to cause the shelf registration statement to be declared effective by the SEC on or prior to 90 days after such obligation arises.

If:

- (1) any of such registration statements is not declared effective by the SEC on or prior to the date specified for such effectiveness (the Effectiveness Target Date );
  - (2) the Issuer and the Guarantors fail to consummate the exchange offer within 30 business days of the Effectiveness Target Date with respect to this registration statement; or
  - (3) the shelf registration statement or this registration statement is declared effective but thereafter ceases to be effective or usable in connection with resales of Entitled Securities during the periods specified in the registration rights agreement (each such event referred to in clauses (1) through (3), a Registration Default ),
- Then the Issuer will pay special interest to each holder of Entitled Securities until all Registration Defaults have been cured ( Special Interest ).

With respect to the first 90-day period immediately following the occurrence of the first Registration Default, Special Interest will be paid in an amount equal to 0.25% per annum of the principal amount of Entitled Securities outstanding. The amount of the Special Interest will increase by an additional 0.25% per annum with respect to each subsequent 90-day period until all Registration Defaults have been cured, up to a maximum amount of Special Interest for all Registration Defaults of 1.0% per annum of the principal amount of the Entitled Securities outstanding.

## TABLE OF CONTENTS

All accrued Special Interest will be paid by the Issuer on the next scheduled interest payment date to DTC or its nominee by wire transfer of immediately available funds or by federal funds check and to holders of certificated notes by wire transfer to the accounts specified by them or by mailing checks to their registered addresses if no such accounts have been specified.

Following the cure of all Registration Defaults, the accrual of Special Interest will cease.

Holders of notes will be required to make certain representations to Issuer (as described in the registration rights agreement) in order to participate in the exchange offer and will be required to deliver certain information to be used in connection with the shelf registration statement and to provide comments on the shelf registration statement within the time periods set forth in the registration rights agreement in order to have their notes included in the shelf registration statement and benefit from the provisions regarding Special Interest set forth above. By acquiring Entitled Securities, a holder will be deemed to have agreed to indemnify Issuer and the Guarantors against certain losses arising out of information furnished by such holder in writing for inclusion in any shelf registration statement. Holders of notes will also be required to suspend their use of the prospectus included in the shelf registration statement under certain circumstances upon receipt of written notice to that effect from Issuer.

## **Resale of Exchange Notes**

Based on interpretations by the staff of the SEC as set forth in no-action letters issued to third parties referred to below, we believe that you may resell or otherwise transfer exchange notes issued in the exchange offer without complying with the registration and prospectus delivery provisions of the Securities Act, if:

you are not our affiliate or an affiliate of any guarantor within the meaning of Rule 405 under the Securities Act; you do not have an arrangement or understanding with any person to participate in a distribution of the exchange notes;

you are not engaged in, and do not intend to engage in, a distribution of the exchange notes; and you are acquiring the exchange notes in the ordinary course of your business.

If you are our affiliate or an affiliate of any guarantor, or are engaging in, or intend to engage in, or have any arrangement or understanding with any person to participate in, a distribution of the exchange notes, or are not acquiring the exchange notes in the ordinary course of your business, then:

you cannot rely on the position of the SEC set forth in Morgan Stanley & Co. Incorporated (available June 5, 1991) and Exxon Capital Holdings Corporation (available May 13, 1988), as interpreted in the SEC's letter to Shearman & Sterling, dated July 2, 1993, or similar no-action letters; and in the absence of an exception from the position stated immediately above, you must comply with the registration and prospectus delivery requirements of the Securities Act in connection with any resale of the exchange notes.

This prospectus may be used for an offer to resell, or for the resale or other transfer of exchange notes only as specifically set forth in this prospectus. With regard to broker-dealers, only broker-dealers that acquired the outstanding notes as a result of market-making activities or other trading activities may participate in the exchange offer. Each broker-dealer that receives exchange notes for its own account in exchange for outstanding notes, where such outstanding notes were acquired by such broker-dealer as a result of market-making activities or other trading activities, must acknowledge that it will deliver a prospectus in connection with any resale of the exchange notes.

Please read Plan of Distribution for more details regarding the transfer of exchange notes.

## **Terms of the Exchange Offer**

On the terms and subject to the conditions set forth in this prospectus and in the accompanying letter of transmittal, the Issuer will accept for exchange in the exchange offer any outstanding notes that are validly tendered and not validly withdrawn prior to the expiration date. Outstanding notes may only be tendered in

107

---

## TABLE OF CONTENTS

denominations of \$2,000 and integral multiples of \$1,000 in excess thereof. The Issuer will issue \$2,000 principal amount of exchange notes in exchange for each \$2,000 principal amount of outstanding notes surrendered in the exchange offer, and integral multiples of \$1,000 in excess thereof.

The form and terms of the exchange notes are identical in all material respects to the form and terms of the corresponding outstanding notes, except that the exchange notes do not contain terms with respect to transfer restrictions, registration rights or additional interest upon a failure to fulfill certain of our obligations under the registration rights agreement. The exchange notes will evidence the same debt as the corresponding outstanding notes.

The exchange notes will be issued under and entitled to the benefits of the same indenture under which the outstanding notes will constitute a single class for all purposes under the indenture. For a description of the indenture, see Description of the Notes.

The exchange offer is not conditioned upon any minimum aggregate principal amount of outstanding notes being tendered for exchange.

As of the date of this prospectus, \$200.0 million aggregate principal amount of the 10 3/8% senior notes due 2018 is outstanding. This prospectus and the letters of transmittal are being sent to all registered holders of outstanding notes. There will be no fixed record date for determining registered holders of outstanding notes entitled to participate in the exchange offer. Holders do not have any appraisal rights or dissenters' rights under the indenture in connection with the exchange offer. The Issuer intends to conduct the exchange offer in accordance with the provisions of the registration rights agreement, the applicable requirements of the Securities Act and the Securities Exchange Act of 1934, as amended (the Exchange Act), and the rules and regulations of the SEC. Outstanding notes that are not tendered for exchange in the exchange offer will remain outstanding and continue to accrue interest and will be entitled to the rights and benefits such holders have under the indenture relating to such holders' series of outstanding notes and the registration rights agreement, except we will not have any further obligation to you to provide for the registration of the outstanding notes under the registration rights agreement.

The Issuer will be deemed to have accepted for exchange properly tendered outstanding notes when it has given written notice of the acceptance to the exchange agent. The exchange agent will act as agent for the tendering holders for the purposes of receiving the exchange notes from us and delivering exchange notes to holders. Subject to the terms of the registration rights agreement, the Issuer expressly reserves the right to amend or terminate the exchange offer and to refuse to accept the occurrence of any of the conditions specified below under Conditions to the Exchange Offer.

Holders who tender outstanding notes in the exchange offer will not be required to pay brokerage commissions or fees or, subject to the instructions in the letter of transmittal, transfer taxes with respect to the exchange of outstanding notes. We will pay all charges and expenses, other than certain applicable taxes described below in connection with the exchange offer. It is important that you read Fees and Expenses below for more details regarding fees and expenses incurred in the exchange offer.

## **Expiration Date; Extensions, Amendments**

As used in this prospectus, the term expiration date means 5:00 p.m., New York City time, on \_\_\_\_\_, 2010. However, if we, in our sole discretion, extend the period of time for which the exchange offer is open, the term expiration date will mean the latest time and date to which we shall have extended the expiration of such exchange offer.

Edgar Filing: IDE IMAGING PARTNERS INC - Form S-4

To extend the period of time during which an exchange offer is open, we will notify the exchange agent of any extension or written notice, followed by notification by press release or other public announcement to the registered holders of the outstanding notes no later than 9:00 a.m., New York City time, on the next business day after the previously scheduled expiration date.

The Issuer reserves the right, in its sole discretion:

to delay accepting for exchange any outstanding notes (only in the case that we amend or extend the exchange offer);

108

---

## TABLE OF CONTENTS

to extend the exchange offer or to terminate the exchange offer if any of the conditions set forth below under Conditions to the Exchange Offer have not been satisfied, by giving written notice of such delay, extension or termination to the exchange agent; and

subject to the terms of the registration rights agreement, to amend the terms of the exchange offer in any manner. In the event of a material change in the exchange offer, including the waiver of a material condition, we will extend the offer period, if necessary, so that at least five business days remain in such offer period following notice of the material change.

Any delay in acceptance, extension, termination or amendment will be followed as promptly as practicable by written notice to the registered holders of the outstanding notes. If Radnet Management, Inc. amends an exchange offer in a manner that we determine to constitute a material change, it will promptly disclose the amendment by press release or other public announcement as required by Rule 14e-1(d) of the Exchange Act and will extend the offer period if necessary so that at least five business days remain in the offer following notice of the material change.

## **Conditions to the Exchange Offer**

Despite any other term of the exchange offer, the Issuer will not be required to accept for exchange, or to issue exchange notes in exchange for, any outstanding notes and it may terminate or amend the exchange offer as provided in this prospectus prior to the expiration date if in its reasonable judgment:

the exchange offer or the making of any exchange by a holder violates any applicable law or interpretation of the SEC; or

any action or proceeding has been instituted or threatened in writing in any court or by or before any governmental agency with respect to the exchange offer that, in our judgment, would reasonably be expected to impair our ability to proceed with the exchange offer.

In addition, the Issuer will not be obligated to accept for exchange the outstanding notes of any holder that has not made to us:

the representations described under Purpose and Effect of the Exchange Offer, Procedures for Tendering Outstanding Notes and Plan of Distribution; or

any other representations as may be reasonably necessary under applicable SEC rules, regulations, or interpretations to make available to us an appropriate form for registration of the exchange notes under the Securities Act.

The Issuer expressly reserves the right at any time or at various times to extend the period of time during which the exchange offer is open. Consequently, the Issuer may delay acceptance of any outstanding notes by notice by press release or other public announcement as required by Rule 14e-1(d) of the Exchange Act of such extension. During any such extensions, all outstanding notes previously tendered and not validly withdrawn will remain subject to the exchange offer, and we may accept them for exchange. The Issuer will return any outstanding notes that it does not accept for exchange for any reason without expense to their tendering holder promptly after the expiration or termination of the exchange offer.

The Issuer expressly reserves the right to amend or terminate the exchange offer and to reject for exchange any outstanding notes not previously accepted for exchange, upon the occurrence of any of the conditions of the exchange offer specified above. The Issuer will promptly give notice by press release or other public announcement as required by Rule 14e-1(d) of the Exchange Act of any extension, amendment, non-acceptance or termination to the holders of the outstanding notes as promptly as practicable. In the case of any extension, such notice will be issued no later than 9:00 a.m., New York City time, on the next business day after the previously scheduled expiration date.



These conditions are for our sole benefit, and the Issuer may assert them regardless of the circumstances that may give rise to them so long as such circumstances do not arise due to our action or inaction or waive them in whole or in part at any or at various times in our sole discretion. If the Issuer fails at any time to exercise any of these rights, it will not constitute a waiver of such right. Each such right will be deemed an ongoing right that it may assert at any time or at various times prior to the expiration date.

## TABLE OF CONTENTS

In addition, the Issuer will not accept for exchange any outstanding notes tendered, and will not issue exchange notes in exchange for any such outstanding notes, if at such time any stop order is threatened or in effect with respect to the registration statement of which this prospectus constitutes a part or the qualification of the indenture under the Trust Indenture Act of 1939, as amended (the "TIA").

## **Procedures for Tendering Outstanding Notes**

Only holders of outstanding notes may tender their outstanding notes in the exchange offer. To tender your outstanding notes in the exchange offer, you must comply with either of the following requirements:

complete, sign and date the letter of transmittal, or a facsimile of the letter of transmittal, have the signature(s) on the letter of transmittal guaranteed if required by the letter of transmittal and mail or deliver such letter of transmittal or facsimile thereof to the exchange agent at the address set forth below under "Exchange Agent" prior to the expiration date; or

comply with DTC's Automated Tender Offer Program procedures described below.

In addition, you will comply with either of the following conditions:

the exchange agent must receive certificates for outstanding notes along with the letter of transmittal prior to the expiration date;

the exchange agent must receive a timely confirmation of book-entry transfer of outstanding notes into the exchange agent's account at DTC according to the procedures for book-entry transfer described below or a properly transmitted agent's message prior to the expiration date; or

you must comply with the guaranteed delivery procedures described below.

Your tender, if not withdrawn prior to the expiration date, constitutes an agreement between us and you upon the terms and subject to the conditions described in this prospectus and in the letter of transmittal.

The method of delivery of outstanding notes, letters of transmittal, and all other required documents to the exchange agent is at your election and risk. We recommend that instead of delivery by mail, you use an overnight or hand delivery service, properly insured. In all cases, you should allow sufficient time to assure timely delivery to the exchange agent before the expiration date. You should not send letters of transmittal or certificates representing outstanding notes to us. You may request that your broker, dealer, commercial bank, trust company or nominee effect the above transactions for you.

If you are a beneficial owner whose outstanding notes are registered in the name of a broker, dealer, commercial bank, trust company, or other nominee and you wish to tender your outstanding notes, you should promptly contact the registered holder and instruct the registered holder to tender on your behalf. If you wish to tender the outstanding notes yourself, you must, prior to completing and executing the letter of transmittal and delivering your outstanding notes, either:

make appropriate arrangements to register ownership of the outstanding notes in your name; or  
obtain a properly completed bond power from the registered holder of outstanding notes.

The transfer of registered ownership may take considerable time and may not be able to be completed prior to the expiration date.

Signatures on the letter of transmittal or a notice of withdrawal, as the case may be, must be guaranteed by a member firm of the Security Transfer Agent Medallion Program or by any other eligible guarantor institution within the meaning of Rule 17A(d)-15 under the Exchange Act unless the outstanding notes surrendered for exchange are

tendered:

by a registered holder of the outstanding notes who has not completed the box entitled Special Registration Instructions or Special Delivery Instructions on the letter of transmittal; or  
for the account of an eligible guarantor institution.

110

---

## TABLE OF CONTENTS

If the letter of transmittal is signed by a person other than the registered holder of any outstanding notes listed on the outstanding notes, such outstanding notes must be endorsed or accompanied by a properly completed bond power. The bond power must be signed by the registered holder as the registered holder's name appears on the outstanding notes and an eligible guarantor institution must guarantee the signature on the bond power.

If the letter of transmittal or any certificates representing outstanding notes, or bond powers are signed by trustees, executors, administrators, guardians, attorneys-in-fact, officers of corporations, or others acting in a fiduciary or representative capacity, those persons should also indicate when signing and, unless waived by us, they should also submit evidence satisfactory to us of their authority to so act.

The exchange agent and DTC have confirmed that any financial institution that is a participant in DTC's system may use DTC's Automated Tender Offer Program to tender. Participants in the program may, instead of physically completing and signing the letter of transmittal and delivering it to the exchange agent, electronically transmit their acceptance of the exchange by causing DTC to transfer the outstanding notes to the exchange agent in accordance with DTC's Automated Tender Offer Program procedures for transfer. DTC will then send an agent's message to the exchange agent. The term "agent's message" means a message transmitted by DTC, received by the exchange agent and forming part of the book-entry confirmation, which states that:

DTC has received an express acknowledgment from a participant in its Automated Tender Offer Program that is tendering outstanding notes that are the subject of the book-entry confirmation;  
the participant has received and agrees to be bound by the terms of the letter of transmittal, or in the case of an agent's message relating to guaranteed delivery, that such participant has received and agrees to be bound by the notice of guaranteed delivery; and

we may enforce that agreement against such participant.  
DTC is referred to herein as a "book-entry transfer facility."

## **Acceptance of Exchange Notes**

In all cases, the Issuer will promptly issue exchange notes for outstanding notes that it has accepted for exchange under the exchange offer only after the exchange agent timely receives:

outstanding notes or a timely book-entry confirmation of such outstanding notes into the exchange agent's account at the book-entry transfer facility; and  
a properly completed and duly executed letter of transmittal and all other required documents or a properly transmitted agent's message.

By tendering outstanding notes pursuant to the exchange offer, you will represent to us that, among other things:

you are not our "affiliate" or an "affiliate" of any guarantor within the meaning of Rule 405 under the Securities Act; you do not have an arrangement or understanding with any person or entity to participate in a distribution of the exchange notes; and

you are acquiring the exchange notes in the ordinary course of your business.

In addition, each broker-dealer that is to receive exchange notes for its own account in exchange for outstanding notes must represent that such outstanding notes were acquired by that broker-dealer as a result of market-making activities or other trading activities and must acknowledge that it will deliver a prospectus that meets the requirements of the

Securities Act in connection with any resale of the exchange notes. The letter of transmittal states that by so acknowledging and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an "underwriter" within the meaning of the Securities Act. See "Plan of Distribution."



## TABLE OF CONTENTS

The Issuer will interpret the terms and conditions of the exchange offer, including the letters of transmittal and the instructions to the letters of transmittal, and will resolve all questions as to the validity, form, eligibility, including time of receipt, and acceptance of outstanding notes tendered for exchange. Our determinations in this regard will be final and binding on all parties. The Issuer reserves the absolute right to reject any and all tenders of any particular outstanding notes not properly tendered or to not accept any particular outstanding notes if the acceptance might, in its or its counsel's judgment, be unlawful. We also reserve the absolute right to waive any defects or irregularities as to any particular outstanding notes prior to the expiration date.

Unless waived, any defects or irregularities in connection with tenders of outstanding notes for exchange must be cured within such reasonable period of time as we determine. Neither the Issuer, the exchange agent, nor any other person will be under any duty to give notification of any defect or irregularity with respect to any tender of outstanding notes for exchange, nor will any of them incur any liability for any failure to give notification. Any outstanding notes received by the exchange agent that are not properly tendered and as to which the irregularities have not been cured or waived will be returned by the exchange agent to the tendering holder, unless otherwise provided in the letter of transmittal, promptly after the expiration date.

## **Book-Entry Delivery Procedures**

Promptly after the date of this prospectus, the exchange agent will establish an account with respect to the outstanding notes at DTC and, as the book-entry transfer facility, for purposes of the exchange offer. Any financial institution that is a participant in the book-entry transfer facility's system may make book-entry delivery of the outstanding notes by causing the book-entry transfer facility to transfer those outstanding notes into the exchange agent's account at the facility in accordance with the facility's procedures for such transfer. To be timely, book-entry delivery of outstanding notes requires receipt of a confirmation of a book-entry transfer, a book-entry confirmation, prior to the expiration date. In addition, although delivery of outstanding notes may be effected through book-entry transfer into the exchange agent's account at the book-entry transfer facility, the letter of transmittal or a manually signed facsimile thereof, together with any required signature guarantees and any other required documents, or an agent's message, as defined below, in connection with a book-entry transfer, must, in any case, be delivered or transmitted to and received by the exchange agent at its address set forth on the cover page of the letter of transmittal prior to the expiration date to receive exchange notes for tendered outstanding notes, or the guaranteed delivery procedure described below must be complied with. Tender will not be deemed made until such documents are received by the exchange agent.

Delivery of documents to the book-entry transfer facility does not constitute delivery to the exchange agent.

Holders of outstanding notes who are unable to deliver confirmation of the book-entry tender of their outstanding notes into the exchange agent's account at the book-entry transfer facility or all other documents required by the letter of transmittal to the exchange agent on or prior to the expiration date must tender their outstanding notes according to the guaranteed delivery procedures described below.

## **Guaranteed Delivery Procedures**

If you wish to tender your outstanding notes but your outstanding notes are not immediately available or you cannot deliver your outstanding notes, the letter of transmittal or any other required documents to the exchange agent or comply with the procedures under DTC's Automatic Tender Offer Program in the case of outstanding notes, prior to the expiration date, you may still tender if:

the tender is made through an eligible guarantor institution;

prior to the expiration date, the exchange agent receives from such eligible guarantor institution either a properly completed and duly executed notice of guaranteed delivery, by facsimile transmission, mail, or hand delivery or a properly transmitted agent's message and notice of guaranteed delivery, that (1) sets forth your name and address, the certificate number(s) of such outstanding notes and the principal amount of outstanding notes tendered; (2) states that the tender is being made thereby; and (3) guarantees that, within three New York Stock Exchange trading days after the expiration date, the letter of transmittal, or facsimile thereof, together with the outstanding notes or a book-entry confirmation, and any other documents required by the letter of transmittal, will be deposited by the eligible guarantor institution with the exchange agent; and

112

---

## TABLE OF CONTENTS

the exchange agent receives the properly completed and executed letter of transmittal or facsimile thereof, as well as certificate(s) representing all tendered outstanding notes in proper form for transfer or a book-entry confirmation of transfer of the outstanding notes into the exchange agent's account at DTC all other documents required by the letter of transmittal within three New York Stock Exchange trading days after the expiration date.

Upon request, the exchange agent will send to you a notice of guaranteed delivery if you wish to tender your outstanding notes according to the guaranteed delivery procedures.

## **Withdrawal Rights**

Except as otherwise provided in this prospectus, you may withdraw your tender of outstanding notes at any time prior to 5:00 p.m., New York City time, on the expiration date.

For a withdrawal to be effective:

the exchange agent must receive a written notice, which may be by telegram, telex, facsimile or letter, of withdrawal at its address set forth below under Exchange Agent; or

you must comply with the appropriate procedures of DTC's Automated Tender Offer Program system.

Any notice of withdrawal must:

specify the name of the person who tendered the outstanding notes to be withdrawn;  
identify the outstanding notes to be withdrawn, including the certificate numbers and principal amount of the outstanding notes; and  
where certificates for outstanding notes have been transmitted, specify the name in which such outstanding notes were registered, if different from that of the withdrawing holder.

If certificates for outstanding notes have been delivered or otherwise identified to the exchange agent, then, prior to the release of such certificates, you must also submit:

the serial numbers of the particular certificates to be withdrawn; and  
a signed notice of withdrawal with signatures guaranteed by an eligible institution unless you are an eligible guarantor institution.

If outstanding notes have been tendered pursuant to the procedures for book-entry transfer described above, any notice of withdrawal must specify the name and number of the account at the book-entry transfer facility to be credited with the withdrawn outstanding notes and otherwise comply with the procedures of the facility. We will determine all questions as to the validity, form, and eligibility, including time of receipt of notices of withdrawal and our determination will be final and binding on all parties. Any outstanding notes so withdrawn will be deemed not to have been validly tendered for exchange for purposes of the exchange offer. Any outstanding notes that have been tendered for exchange but that are not exchanged for any reason will be returned to their holder, without cost to the holder, or, in the case of book-entry transfer, the outstanding notes will be credited to an account at the book-entry transfer facility, promptly after withdrawal, rejection of tender or termination of the exchange offer. Properly withdrawn outstanding notes may be retendered by following the procedures described under Procedures for Tendering Outstanding Notes above at any time on or prior to the expiration date.



TABLE OF CONTENTS

## Exchange Agent

U.S. Bank National Association has been appointed as the exchange agent for the exchange offer. U.S. Bank National Association also acts as trustee under the indenture governing the notes. You should direct all executed letters of transmittal and all questions and requests for assistance, requests for additional copies of this prospectus or of the letters of transmittal, and requests for notices of guaranteed delivery to the exchange agent addressed as follows:

**By Mail or Overnight Courier:**

U.S. Bank National Association  
60 Livingston Avenue  
St. Paul, MN 55107  
Attn: Specialized Finance Dept.

**By Facsimile:**

U.S. Bank National Association  
60 Livingston Avenue  
St. Paul, MN 55107  
Attn: Specialized Finance Dept.

**By Hand Delivery:**

U.S. Bank National Association  
60 Livingston Avenue  
St. Paul, MN 55107  
Attn: Specialized Finance Dept.

(651) 495-8158

*Confirm receipt of  
facsimile by telephone  
(800) 934-6802*

*Note:* Delivery of this instrument to an address other than as set forth above, or transmission of instructions other than as set forth above, will not constitute a valid delivery.

If you deliver the letter of transmittal to an address other than the one set forth above or transmit instructions via facsimile other than the one set forth above, that delivery or those instructions will not be effective.

## Fees and Expenses

The registration rights agreement provides that we will bear all expenses in connection with the performance of our obligations relating to the registration of the exchange notes and the conduct of the exchange offer. These expenses include registration and filing fees, accounting and legal fees and printing costs, among others. We will pay the exchange agent reasonable and customary fees for its services and reasonable out-of-pocket expenses. We will also reimburse brokerage houses and other custodians, nominees and fiduciaries for customary mailing and handling expenses incurred by them in forwarding this prospectus and related documents to their clients that are holders of outstanding notes and for handling or tendering for such clients.

We have not retained any dealer-manager in connection with the exchange offer and will not pay any fee or commission to any broker, dealer, nominee or other person, other than the exchange agent, for soliciting tenders of outstanding notes pursuant to the exchange offer.

## Accounting Treatment

We will record the exchange notes in our accounting records at the same carrying value as the outstanding notes, which is the aggregate principal amount as reflected in our accounting records on the date of exchanges. Accordingly, we will not recognize any gain or loss for accounting purposes upon the consummation of the exchange offer. We will record the expenses of the exchange offer as incurred.

## Transfer Taxes

We will pay all transfer taxes, if any, applicable to the exchanges of outstanding notes under the exchange offer. The tendering holder, however, will be required to pay any transfer taxes, whether imposed on the registered holder or any other person, if:

certificates representing outstanding notes for principal amounts not tendered or accepted for exchange are to be delivered to, or are to be issued in the name of, any person other than the registered holder of outstanding notes tendered;

tendered outstanding notes are registered in the name of any person other than the person signing the letter of transmittal; or

114

---

## TABLE OF CONTENTS

a transfer tax is imposed for any reason other than the exchange of outstanding notes under the exchange offer. If satisfactory evidence of payment of such taxes is not submitted with the letter of transmittal, the amount of such transfer taxes will be billed to that tendering holder.

Holders who tender their outstanding notes for exchange will not be required to pay any transfer taxes. However, holders who instruct us to register exchange notes in the name of, or request that outstanding notes not tendered or not accepted in the exchange offer be returned to, a person other than the registered tendering holder will be required to pay any applicable transfer tax.

## **Consequences of Failure to Exchange**

If you do not exchange your outstanding notes for exchange notes under the exchange offer, your outstanding notes will remain subject to the restrictions on transfer of such outstanding notes:

as set forth in the legend printed on the outstanding notes as a consequence of the issuance of the outstanding notes pursuant to the exemptions from, or in transactions not subject to, the registration requirements of the Securities Act and applicable state securities laws; and  
as otherwise set forth in the prospectus distributed in connection with the private offerings of the outstanding notes. In general, you may not offer or sell your outstanding notes unless they are registered under the Securities Act or if the offer or sale is exempt from registration under the Securities Act and applicable state securities laws. Except as required by the registration rights agreement, we do not intend to register resales of the outstanding notes under the Securities Act.

## **Other**

Participating in the exchange offer is voluntary, and you should carefully consider whether to accept. You are urged to consult your financial and tax advisors in making your own decision on what action to take.

We may in the future seek to acquire untendered outstanding notes in open market or privately negotiated transactions, through subsequent exchange offers or otherwise. We have no present plans to acquire any outstanding notes that are not tendered in the exchange offer or to file a registration statement to permit resales of any untendered outstanding notes.

TABLE OF CONTENTS

## DESCRIPTION OF NOTES

You can find the definitions of certain terms used in this description under the caption "Certain Definitions" below. In this description, the word "Issuer" refers only to Radnet Management, Inc. and not to Parent or any of its Subsidiaries.

On April 6, 2010, the Issuer issued (the Original Issuance) \$200,000,000 aggregate principal amount of 10 3/8% senior notes due 2018 under an indenture, dated as of April 6, 2010, among itself, the Guarantors and, the trustee, in a private transaction that was not subject to the registration requirements of the Securities Act. The terms of the notes include those stated in the indenture and those made part of the indenture by reference to the Trust Indenture Act of 1939, as amended.

The following description is only a summary of the material provisions of the indenture, which is an exhibit to the registration statement of which this prospectus forms a part. It does not restate this agreement in its entirety. We urge you to read the indenture because it, and not this description, define your rights as holders of the notes. Copies of the indenture are available as set forth below under "Additional Information." Certain defined terms used in this description but not defined below under "Certain Definitions" have the meanings assigned to them in the indenture.

The registered holder of a note will be treated as the owner of it for all purposes. Only registered holders have rights under the indenture.

### Brief Description of the Notes and the Note Guarantees

#### The Notes

The notes:

are general unsecured, senior obligations of the Issuer;  
mature on April 1, 2018;  
were issued in denominations of \$2,000 and integral multiples of \$1,000 in excess of \$2,000;  
rank equally in right of payment with all existing and future unsecured senior Indebtedness of the Issuer;  
are senior in right of payment to any future subordinated Indebtedness of the Issuer; and  
are unconditionally guaranteed on a senior, unsecured basis by the Guarantors.

However, the notes are effectively subordinated to all borrowings under the Credit Agreement, which are secured by substantially all of the assets of the Issuer and the Guarantors, and any future secured indebtedness of the Issuer and the Guarantors to the extent of the value of the assets securing such indebtedness. See "Risk Factors" Your right to receive payments on the notes is effectively junior to those lenders who have a security interest in our assets.

#### The Note Guarantees

The notes are guaranteed on a senior unsecured basis by Parent and each of the Issuer's current and future Wholly Owned Domestic Subsidiaries. The notes are also guaranteed by any of the Issuer's Subsidiaries that guarantee other Indebtedness of the Issuer or any Guarantor.

Each guarantee of the notes:

is a general unsecured obligation of the Guarantor;

ranks equally in right of payment with all existing and future unsecured senior Indebtedness of that Guarantor; and  
is senior in right of payment to any future subordinated Indebtedness of that Guarantor.

As of the date of the indenture, all of our Subsidiaries are Restricted Subsidiaries. However, under the circumstances described below under the caption Certain Covenants Designation of Restricted and Unrestricted Subsidiaries, the Issuer is permitted to designate certain of its Subsidiaries as Unrestricted

## TABLE OF CONTENTS

Subsidiaries. Our Unrestricted Subsidiaries are not subject to many of the restrictive covenants in the indenture. Our Unrestricted Subsidiaries are not guaranteeing the notes.

### **Principal, Maturity and Interest**

The Issuer issued \$200.0 million in aggregate principal amount of notes in the Original Issuance. The Issuer may issue additional notes under the indenture from time to time after the Original Issuance. Any issuance of additional notes is subject to all of the covenants in the indenture, including the covenant described below under the caption Certain Covenants Incurrence of Indebtedness and Issuance of Preferred Stock. The notes and any additional notes subsequently issued under the indenture will be treated as a single class for all purposes under the indenture, including, without limitation, waivers, amendments, redemptions and offers to purchase. The Issuer issued the notes in denominations of \$2,000 and integral multiples of \$1,000 in excess of \$2,000. The notes will mature on April 1, 2018.

Interest on the notes accrues at the rate of 10 3/8% per annum and is payable semi-annually in arrears on April 1 and October 1, commencing on October 1, 2010. Interest on overdue principal, interest and Special Interest, if any, will accrue at a rate that is 1% higher than the then applicable interest rate on the notes. The Issuer will make each interest payment to the holders of record on the immediately preceding March 15 and September 15.

Interest on the notes will accrue from the date of Original Issuance or, if interest has already been paid, from the date it was most recently paid. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months.

### **Methods of Receiving Payments on the Notes**

If a holder of notes has given wire transfer instructions to the Issuer, the Issuer will pay all principal of, premium on, if any, interest and Special Interest, if any, on, that holder's notes in accordance with those instructions. All other payments on the notes will be made at the office or agency of the paying agent and registrar within the City and State of New York unless the Issuer elects to make interest payments by check mailed to the noteholders at their address set forth in the register of holders.

### **Paying Agent and Registrar for the Notes**

The trustee will initially act as paying agent and registrar. The Issuer may change the paying agent or registrar without prior notice to the holders of the notes, and the Issuer or any of its Subsidiaries may act as paying agent or registrar.

### **Transfer and Exchange**

A holder may transfer or exchange notes in accordance with the provisions of the indenture. The registrar and the trustee may require a holder, among other things, to furnish appropriate endorsements and transfer documents in connection with a transfer of notes. Holders will be required to pay all taxes due on transfer. The Issuer will not be required to transfer or exchange any note selected for redemption. Also, the Issuer will not be required to transfer or exchange any note for a period of 15 days before a selection of notes to be redeemed.

## Note Guarantees

The notes are guaranteed by Parent and each of the Issuer's current and future Wholly Owned Subsidiaries, as well as any other Domestic Subsidiary of the Issuer that guarantees any other debt of the Issuer or any Guarantor. These Note Guarantees are joint and several obligations of the Guarantors. The obligations of each Guarantor under its Note Guarantee is limited as necessary to prevent that Note Guarantee from constituting a fraudulent conveyance under applicable law. See Risk Factors Federal and state fraudulent transfer laws may permit a court to void the notes and the Guarantees, and if that occurs, you may not receive any payments on the notes.

TABLE OF CONTENTS

A Restricted Subsidiary of Parent that is a Guarantor may not sell or otherwise dispose of all or substantially all of its assets to, or consolidate with or merge with or into (whether or not such Guarantor is the surviving Person) another Person, other than the Issuer or another Guarantor, unless:

- (1) immediately after giving effect to such transaction, no Default or Event of Default exists; and
- (2) either:
  - (a) the Person acquiring the property in any such sale or disposition or the Person formed by or surviving any such consolidation or merger unconditionally assumes all the obligations of that Guarantor under its Note Guarantee, the indenture and the registration rights agreement (to the extent applicable) pursuant to a supplemental indenture satisfactory to the trustee; or
  - (b) the Net Proceeds of such sale or other disposition are applied in accordance with the applicable provisions of the indenture.

The Note Guarantee of any Guarantor other than Parent will be released:

- (3) in connection with any sale or other disposition of all or substantially all of the assets of that Guarantor, by way of merger, consolidation or otherwise, to a Person that is not (either before or after giving effect to such transaction) Parent or a Restricted Subsidiary of Parent, if the sale or other disposition does not violate the Asset Sale provisions of the indenture;
- (4) in connection with any sale or other disposition of Capital Stock of that Guarantor to a Person that is not (either before or after giving effect to such transaction) Parent or a Restricted Subsidiary of Parent, if the sale or other disposition does not violate the Asset Sale provisions of the indenture and the Guarantor ceases to be a Restricted Subsidiary of the Issuer as a result of the sale or other disposition;
- (5) if Parent designates any Restricted Subsidiary that is a Guarantor to be an Unrestricted Subsidiary in accordance with the applicable provisions of the indenture; or
- (6) upon legal defeasance, covenant defeasance or satisfaction and discharge of the indenture as provided below under the captions Legal Defeasance and Covenant Defeasance and Satisfaction and Discharge.

After giving effect to the Refinancing, including the Original Issuance of the notes, and the application of the net proceeds therefrom, as of June 30, 2010, we had \$510.4 million in aggregate principal amount of outstanding indebtedness, \$312.0 million of which constituted senior secured indebtedness that is effectively senior to the notes to the extent of the value of the collateral securing such debt. The indenture permits the Issuer and the Guarantors to incur additional Indebtedness in the future under certain circumstances.

Our non Wholly Owned Domestic Subsidiaries, our Unrestricted Subsidiaries and our foreign Subsidiaries do not and will not guarantee the notes. In the event of a bankruptcy, liquidation or reorganization of any of these non-guarantor Subsidiaries, the non-guarantor Subsidiaries will be required to pay the holders of their debt and their trade creditors before they will be able to distribute any of their assets to us.

As of June 30, 2010, our non-guarantor subsidiaries had assets of \$45.1 million and liabilities of \$35.6 million (including trade payables).

## Optional Redemption

At any time prior to April 1, 2013, the Issuer may on any one or more occasions redeem up to 35% of the aggregate principal amount of notes issued under the indenture, upon not less than 30 nor more than 60 days notice, at a redemption price equal to 110.375% of the principal amount of the notes redeemed, plus accrued and unpaid interest and Special Interest, if any, to the date of redemption (subject to the rights of holders of notes on the relevant record date to receive interest on the relevant interest payment date), with the net cash proceeds of one or more Equity



Offerings by Parent; *provided* that:

(1) at least 65% of the aggregate principal amount of notes originally issued under the indenture (excluding notes held by the Issuer and its Subsidiaries) remains outstanding immediately after the occurrence of such redemption; and

---

TABLE OF CONTENTS

(2) the redemption occurs within 90 days of the date of the closing of such Equity Offering. At any time prior to April 1, 2014, the Issuer may on any one or more occasions redeem all or a part of the notes, upon not less than 30 nor more than 60 days notice, at a redemption price equal to 100% of the principal amount of the notes redeemed, plus the Applicable Premium as of, and accrued and unpaid interest and Special Interest, if any, to the date of redemption, subject to the rights of holders of notes on the relevant record date to receive interest due on the relevant interest payment date.

Except pursuant to the preceding paragraphs, the notes will not be redeemable at the Issuer's option prior to April 1, 2014.

On or after April 1, 2014, the Issuer may on any one or more occasions redeem all or a part of the notes, upon not less than 30 nor more than 60 days notice, at the redemption prices (expressed as percentages of principal amount) set forth below, plus accrued and unpaid interest and Special Interest, if any, on the notes redeemed, to the applicable date of redemption, if redeemed during the twelve-month period beginning on April 1 of the years indicated below, subject to the rights of holders of notes on the relevant record date to receive interest on the relevant interest payment date:

Year	Percentage
2014	105.188 %
2015	102.594 %
2016 and thereafter	100.000 %

Unless the Issuer defaults in the payment of the redemption price, interest will cease to accrue on the notes or portions thereof called for redemption on the applicable redemption date.

The Issuer may acquire notes by means other than a redemption, whether by tender offer, open market purchases, negotiated transactions or otherwise, in accordance with applicable securities laws, so long as such acquisition does not otherwise violate the terms of the indenture.

## Mandatory Redemption

The Issuer is not required to make mandatory redemption or sinking fund payments with respect to the notes. However, under certain circumstances, the Issuer may be required to offer to purchase notes as described under the captions, Repurchase at the Option of Holders Change of Control and Repurchase at the Option of the Holders Asset Sales.

## Repurchase at the Option of Holders

### Change of Control

If a Change of Control occurs, each holder of notes will have the right to require the Issuer to repurchase all or any part (equal to \$2,000 or an integral multiple of \$1,000 in excess thereof) of that holder's notes pursuant to a Change of Control Offer on the terms set forth in the indenture. In the Change of Control Offer, the Issuer will offer a Change of Control Payment in cash equal to 101% of the aggregate principal amount of notes repurchased, plus accrued and unpaid interest and Special Interest, if any, on the notes repurchased to the date of purchase, subject to the rights of holders of notes on the relevant record date to receive interest due on the relevant interest payment date.

Within 30 days following any Change of Control, the Issuer will mail a notice to each holder describing the transaction or transactions that constitute the Change of Control and offering to repurchase notes on the Change of Control Payment Date specified in the notice, which date will be no earlier than 30 days and no later than 60 days from the date such notice is mailed, pursuant to the procedures required by the indenture and described in such notice. The Issuer will comply with the requirements of Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent those laws and regulations are applicable in connection with the repurchase of the notes as a result of a Change of Control. To the extent that the provisions of any securities laws or regulations conflict with the Change of Control provisions of the indenture, the Issuer will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Change of Control provisions of the indenture by virtue of such compliance.

TABLE OF CONTENTS

On the Change of Control Payment Date, the Issuer will, to the extent lawful:

- (1) accept for payment all notes or portions of notes properly tendered pursuant to the Change of Control Offer;
- (2) deposit with the paying agent an amount equal to the Change of Control Payment in respect of all notes or portions of notes properly tendered; and
- (3) deliver or cause to be delivered to the trustee the notes properly accepted together with an officers certificate stating the aggregate principal amount of notes or portions of notes being purchased by the Issuer.

The paying agent will promptly mail to each holder of notes properly tendered the Change of Control Payment for such notes, and the trustee will promptly authenticate and mail (or cause to be transferred by book entry) to each holder a new note equal in principal amount to any unpurchased portion of the notes surrendered, if any. The Issuer will publicly announce the results of the Change of Control Offer on or as soon as practicable after the Change of Control Payment Date.

The provisions described above that require the Issuer to make a Change of Control Offer following a Change of Control will be applicable whether or not any other provisions of the indenture are applicable. Except as described above with respect to a Change of Control, the indenture does not contain provisions that permit the holders of the notes to require that the Issuer repurchase or redeem the notes in the event of a takeover, recapitalization or similar transaction.

The Issuer will not be required to make a Change of Control Offer upon a Change of Control if (1) a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the indenture applicable to a Change of Control Offer made by the Issuer and purchases all notes properly tendered and not withdrawn under the Change of Control Offer, or (2) notice of redemption has been given pursuant to the indenture as described above under the caption Optional Redemption, unless and until there is a default in payment of the applicable redemption price. Notwithstanding anything to the contrary contained herein, a Change of Control Offer may be made in advance of a Change of Control, conditioned upon the consummation of such Change of Control, if a definitive agreement is in place for the Change of Control at the time the Change of Control Offer is made.

The Change of Control provisions described above may deter certain mergers, tender offers and other takeover attempts involving the Issuer by increasing the capital required to effectuate such transactions. The definition of Change of Control includes a phrase relating to the direct or indirect sale, lease, transfer, conveyance or other disposition of all or substantially all of the properties or assets of Parent and its Subsidiaries taken as a whole. Although there is a limited body of case law interpreting the phrase substantially all, there is no precise established definition of the phrase under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve a disposition of all or substantially all of the property or assets of Parent and its Subsidiaries, taken as a whole. Accordingly, the ability of a holder of notes to require the Issuer to repurchase its notes as a result of a sale, lease, transfer, conveyance or other disposition of less than all of the assets of Parent and its Subsidiaries taken as a whole to another Person or group may be uncertain. The provisions under the indenture relative to the Issuer's obligation to make an offer to repurchase the notes as a result of a Change of Control may be waived or modified with the written consent of the holders of a majority in principal amount of the notes.

The Issuer's ability to repurchase notes pursuant to a Change of Control Offer may be limited by a number of factors. The occurrence of certain of the events that constitute a Change of Control would constitute a default under the Credit Agreement. In addition, certain events that may constitute a change of control under the Credit Agreement and cause a default under that agreement may not constitute a Change of Control under the indenture. Future Indebtedness of the Issuer and the Guarantors may also contain prohibitions of certain events that would constitute a Change of Control or

require such Indebtedness to be repurchased upon a Change of Control. Moreover, the exercise by the holders of their rights to require the Issuer to repurchase the notes could cause a default under such Indebtedness, even if the Change of Control itself does not, due to the financial effect of such repurchase on the Issuer. Finally, the Issuer's ability to pay

120

---

TABLE OF CONTENTS

cash to the holders upon a repurchase may be limited by the Issuer's then existing financial resources. There can be no assurance that sufficient funds will be available when necessary to make any required repurchases. Even if sufficient funds were otherwise available, the terms of the Credit Agreement will, and future Indebtedness may, prohibit the Issuer's prepayment of notes before their scheduled maturity. Consequently, if the Issuer is not able to prepay the Credit Agreement and any such other Indebtedness containing similar restrictions or obtain requisite consents, as described above, the Issuer will be unable to fulfill its repurchase obligations if holders of notes exercise their repurchase rights following a Change of Control, resulting in a default under the indenture. A default under the indenture may result in a cross-default under the Credit Agreement.

**Asset Sales**

Parent will not, and will not permit any of its Restricted Subsidiaries to, consummate an Asset Sale unless:

- Parent (or the Restricted Subsidiary, as the case may be) receives consideration at the time of the Asset Sale at least equal to the Fair Market Value (measured as of the date of the definitive agreement with respect to such Asset Sale) of the assets or Equity Interests issued or sold or otherwise disposed of; and
- (2) at least 75% of the consideration received in the Asset Sale by Parent or such Restricted Subsidiary is in the form of cash or Cash Equivalents. For purposes of this provision, each of the following will be deemed to be cash:
    - (a) any liabilities, as shown on Parent's most recent consolidated balance sheet, of Parent or any Restricted Subsidiary (other than contingent liabilities and liabilities that are by their terms subordinated to the notes or any Note Guarantee) that are assumed by the transferee of any such assets pursuant to a customary novation or indemnity agreement that releases Parent or such Restricted Subsidiary from or indemnifies against further liability;
    - (b) any securities, notes or other obligations received by Parent or any such Restricted Subsidiary from such transferee that are converted by Parent or such Restricted Subsidiary into cash, to the extent of the cash received in that conversion, within 180 days following the closing of such Asset Sale;
    - (c) any Designated Non-cash Consideration received by Parent or any of its Restricted Subsidiaries in such Asset Sale having an aggregate fair market value, taken together with all other Designated Non-cash Consideration received pursuant to this clause (c) that is at that time outstanding, not to exceed the greater of (i) \$25 million or (ii) 5.0% of Total Assets at the time of the receipt of such Designated Non-cash Consideration (with the Fair Market Value of each item of Designated Non-cash Consideration being measured at the time received and without giving effect to subsequent changes in value); and
    - (d) any stock or assets of the kind referred to in clauses (2) or (4) of the next paragraph of this covenant.

Within 365 days after the receipt of any Net Proceeds from an Asset Sale, Parent (or the applicable Restricted Subsidiary, as the case may be) may apply such Net Proceeds:

- (1) to repay Indebtedness and other Obligations under a Credit Facility that are secured by a Lien; to acquire all or substantially all of the assets of, or any Capital Stock of, another Permitted Business, if, after
- (2) giving effect to any such acquisition of Capital Stock, the Permitted Business is or becomes a Restricted Subsidiary of Parent;
- (3) to make a capital expenditure; or
- (4) to acquire other assets that are not classified as current assets under GAAP and that are used or useful in a Permitted Business.

TABLE OF CONTENTS

Pending the final application of any Net Proceeds, Parent (or the applicable Restricted Subsidiary) may temporarily reduce revolving credit borrowings or otherwise invest the Net Proceeds in any manner that is not prohibited by the indenture.

Any Net Proceeds from Asset Sales that are not applied or invested as provided in the second paragraph of this covenant will constitute *Excess Proceeds*. When the aggregate amount of Excess Proceeds exceeds \$20.0 million, within 30 business days thereof, Parent will make an offer (an *Asset Sale Offer*) to all holders of notes and all holders of other Indebtedness that ranks equal to the notes (or *pari passu*) containing provisions similar to those set forth in the indenture with respect to offers to purchase, prepay or redeem with the proceeds of sales of assets to purchase, prepay or redeem the maximum principal amount of notes and such other *pari passu* Indebtedness (plus all accrued interest on the Indebtedness and the amount of all fees and expenses, including premiums, incurred in connection therewith) that may be purchased, prepaid or redeemed out of the Excess Proceeds. The offer price in any Asset Sale Offer will be equal to 100% of the principal amount, plus accrued and unpaid interest and Special Interest, if any, to the date of purchase, prepayment or redemption, subject to the rights of holders of notes on the relevant record date to receive interest due on the relevant interest payment date, and will be payable in cash. If any Excess Proceeds remain after consummation of an Asset Sale Offer, Parent may use those Excess Proceeds for any purpose not otherwise prohibited by the indenture. If the aggregate principal amount of notes and other *pari passu* Indebtedness tendered in (or required to be prepaid or redeemed in connection with) such Asset Sale Offer exceeds the amount of Excess Proceeds, the trustee will select the notes and such other *pari passu* Indebtedness to be purchased on a *pro rata* basis, based on the amounts tendered or required to be prepaid or redeemed (with such adjustments as may be deemed appropriate by Parent so that only notes in denominations of \$2,000, or an integral multiple of \$1,000 in excess thereof, will be purchased). Upon completion of each Asset Sale Offer, the amount of Excess Proceeds will be reset at zero.

Parent will comply with the requirements of Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent those laws and regulations are applicable in connection with each repurchase of notes pursuant to a Change of Control Offer or an Asset Sale Offer. To the extent that the provisions of any securities laws or regulations conflict with the Change of Control or Asset Sale provisions of the indenture, Parent will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Change of Control or Asset Sale provisions of the indenture by virtue of such compliance.

The agreements governing the other Indebtedness of Parent and its Subsidiaries contain, and future agreements may contain, prohibitions of certain events, including events that would constitute a Change of Control or an Asset Sale and including repurchases of or other prepayments in respect of the notes. The exercise by the holders of notes of their right to require Parent to repurchase the notes upon a Change of Control or an Asset Sale could cause a default under these other agreements, even if the Change of Control or Asset Sale itself does not, due to the financial effect of such repurchases on Parent. In the event a Change of Control or Asset Sale occurs at a time when Parent is prohibited from purchasing notes, Parent could seek the consent of its senior lenders to the purchase of notes or could attempt to refinance the borrowings that contain such prohibition. If Parent does not obtain a consent or repay those borrowings, Parent will remain prohibited from purchasing notes. In that case, Parent's failure to purchase tendered notes would constitute an Event of Default under the indenture which could, in turn, constitute a default under the other Indebtedness. Finally, Parent's ability to pay cash to the holders of notes upon a repurchase may be limited by Parent's then existing financial resources. See *Risk Factors* We may not be able to repurchase notes upon a change of control, which would be an event of default under the indenture.

## Selection and Notice

If less than all of the notes are to be redeemed at any time, the trustee will select notes for redemption on a *pro rata* basis (or, in the case of notes issued in global form, based on a method that most nearly approximates a *pro rata* selection as the trustee deems fair and appropriate) unless otherwise required by law or applicable stock exchange or depositary requirements.



## TABLE OF CONTENTS

No notes of \$2,000 or less can be redeemed in part. Notices of redemption will be mailed by first class mail at least 30 but not more than 60 days before the redemption date to each holder of notes to be redeemed at its registered address, except that redemption notices may be mailed more than 60 days prior to a redemption date if the notice is issued in connection with a defeasance of the notes or a satisfaction and discharge of the indenture. Notices of redemption may not be conditional.

If any note is to be redeemed in part only, the notice of redemption that relates to that note will state the portion of the principal amount of that note that is to be redeemed. A new note in principal amount equal to the unredeemed portion of the original note will be issued in the name of the holder of notes upon cancellation of the original note. Notes called for redemption become due on the date fixed for redemption. On and after the redemption date, interest ceases to accrue on notes or portions of notes called for redemption.

## **Certain Covenants**

### **Restricted Payments**

The indenture provides that Parent will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly:

- (1) declare or pay any dividend or make any other payment or distribution on account of Parent's or any of its Restricted Subsidiaries' Equity Interests (including, without limitation, any payment in connection with any merger or consolidation involving Parent or any of its Restricted Subsidiaries) or to the direct or indirect holders of Parent's or any of its Restricted Subsidiaries' Equity Interests in their capacity as such (other than dividends or distributions payable in Equity Interests (other than Disqualified Stock) of Parent and other than dividends or distributions payable to Parent or a Restricted Subsidiary of Parent);
  - (2) purchase, redeem or otherwise acquire or retire for value (including, without limitation, in connection with any merger or consolidation involving Parent) any Equity Interests of Parent or any direct or indirect parent of Parent;
  - (3) make any payment on or with respect to, or purchase, redeem, defease or otherwise acquire or retire for value any Indebtedness of Parent or any Guarantor that is contractually subordinated to the notes or to any Note Guarantee (excluding any intercompany Indebtedness between or among Parent and any of its Restricted Subsidiaries), except a payment of interest or principal at the Stated Maturity thereof; or
  - (4) make any Restricted Investment
- (all such payments and other actions set forth in these clauses (1) through (4) above being collectively referred to as Restricted Payments ),

unless, at the time of and after giving effect to such Restricted Payment:

- (a) no Default or Event of Default has occurred and is continuing or would occur as a consequence of such Restricted Payment;
- (b) Parent would, at the time of such Restricted Payment and after giving pro forma effect thereto as if such Restricted Payment had been made at the beginning of the applicable four-quarter period, have been permitted to incur at least \$1.00 of additional Indebtedness pursuant to the Fixed Charge Coverage Ratio test set forth in the first paragraph of the covenant described below under the caption Incurrence of Indebtedness and Issuance of Preferred Stock; and
- (c) such Restricted Payment, together with the aggregate amount of all other Restricted Payments made by Parent and its Restricted Subsidiaries since the date of the indenture (excluding Restricted Payments permitted by clauses (2), (3), (4), (5), (6), (7), (8), (9) and (10) of the next succeeding paragraph), is less than the sum, without duplication,

of:

50% of the Consolidated Net Income of Parent for the period (taken as one accounting period) from the beginning (1) of the first fiscal quarter commencing after the date of the indenture to the end of Parent's most recently ended fiscal quarter for which internal financial statements are

123

---

TABLE OF CONTENTS

available at the time of such Restricted Payment (or, if such Consolidated Net Income for such period is a deficit, less 100% of such deficit); *plus*

100% of the aggregate net cash proceeds and the fair market value, as determined in good faith by the Board of Directors of Parent, of marketable securities received by Parent since the date of the indenture as a contribution to its common equity capital or from the issue or sale of Qualifying Equity Interests of Parent or from the issue or sale (2) of convertible or exchangeable Disqualified Stock of Parent or convertible or exchangeable debt securities of Parent, in each case that have been converted into or exchanged for Qualifying Equity Interests of Parent (other than Qualifying Equity Interests and convertible or exchangeable Disqualified Stock or debt securities sold to a Subsidiary of Parent); *plus*

the aggregate amount by which Indebtedness (other than subordinated Indebtedness) of Parent or any of its Restricted Subsidiaries is reduced on Parent's consolidated balance sheet on or after the issue date of the notes upon (3) the conversion or exchange of any debt securities (that by their terms are convertible into Qualifying Equity Interests of Parent) issued or sold on or prior to the issue date of the notes that are converted into Qualifying Equity Interests of Parent; *plus*

(4) 100% of the aggregate net cash proceeds and the fair market value, as determined in good faith by the Board of Directors of Parent, of marketable securities (other than Restricted Investments) received after the issue date from:

(A) the sale or other disposition (other than to Parent or a Restricted Subsidiary) of Restricted Investments made by Parent and its Restricted Subsidiaries after the issue date;

(B) the sale (other than to Parent or a Restricted Subsidiary) of the stock of, an Unrestricted Subsidiary after the date of the indenture (other than to the extent the Instrument in such Unrestricted Subsidiary constituted a Permitted Investment), and a dividend from an Unrestricted Subsidiary after the date of the indenture, to the extent such dividends were not otherwise included in the Consolidated Net Income of Parent for such period; *plus*

(5) to the extent that any Unrestricted Subsidiary of Parent designated as such after the date of the indenture is redesignated as a Restricted Subsidiary after the date of the indenture, the lesser of (i) the Fair Market Value of Parent's Restricted Investment in such Subsidiary as of the date of such redesignation or (ii) such Fair Market Value as of the date on which such Subsidiary was originally designated as an Unrestricted Subsidiary after the date of the indenture (other than an Unrestricted Subsidiary to the extent such Instrument constituted a Permitted Investment).

The preceding provisions do not prohibit:

(1) the payment of any dividend or the consummation of any irrevocable redemption within 60 days after the date of declaration of the dividend or giving of the redemption notice, as the case may be, if at the date of declaration or notice, the dividend or redemption payment would have complied with the provisions of the indenture;

(2) the making of any Restricted Payment in exchange for, or out of or with the proceeds of the substantially concurrent sale (other than to a Subsidiary of Parent) of, Equity Interests of Parent (other than Disqualified Stock) or from the substantially concurrent contribution of common equity capital to Parent; *provided* that the amount of any such net proceeds that are utilized for any such Restricted Payment will not be considered to be net proceeds of Qualifying Equity Interests for purposes of clause (c)(2) of the preceding paragraph;

(3) the payment of any dividend (or, in the case of any partnership or limited liability company, any similar distribution) by a Restricted Subsidiary of Parent to the holders of its Equity Interests on a *pro rata* basis;

124

TABLE OF CONTENTS

- the repurchase, redemption, defeasance or other acquisition or retirement for value of Indebtedness of Parent or any
- (4) Guarantor that is contractually subordinated to the notes or to any Note Guarantee with the net proceeds from a substantially concurrent incurrence of Permitted Refinancing Indebtedness; so long as no Default or Event of Default has occurred and is continuing, the repurchase, redemption or other acquisition or retirement for value of any Equity Interests of Parent or any Restricted Subsidiary of Parent held by any current or former officer, director, employee or consultant of Parent or any of its Restricted Subsidiaries, or transferees of such persons, pursuant to any equity subscription agreement, stock option agreement, shareholders
- (5) agreement or similar agreement; *provided* that the aggregate price paid for all such repurchased, redeemed, acquired or retired Equity Interests may not exceed \$2.0 million in any twelve-month period; *provided further*, that Parent and its Restricted Subsidiaries may carry over unutilized capacity under this clause (5) attributable any preceding twelve-month periods, up to a maximum amount of \$4.0 million in any twelve-month period *provided, further* that such amount in any calendar year may be increased by an amount not to exceed:
- (a) the cash proceeds from the sale of Equity Interests of Parent to members of management, directors or consultants of Parent and its Subsidiaries that occurs after the issue date of the notes (to the extent the cash proceeds from the sale of such Equity Interests have not otherwise been applied to the payment of Restricted Payments by virtue of the preceding paragraph (3)); *plus*
- (b) the cash proceeds of key man life insurance policies received by Parent and its Restricted Subsidiaries after the issue date of the notes, *less*
- (c) the amount of any Restricted Payments made after the issue date of the notes pursuant to clauses (a) and (b) of this subparagraph (5);
- and, *provided further*, that cancellation of Indebtedness owing to Parent from members of management of Parent or any of its Restricted Subsidiaries in connection with a repurchase of Equity Interests of Parent will not be deemed to constitute a Restricted Payment for purposes of this covenant or any other provision of the indenture;
- (6) the repurchase of Equity Interests deemed to occur upon the exercise of stock options to the extent such Equity Interests represent a portion of the exercise price of those stock options; so long as no Default or Event of Default has occurred and is continuing, the declaration and payment of regularly scheduled or accrued dividends to holders of any class or series of Disqualified Stock of Parent or any preferred
- (7) stock of any Restricted Subsidiary of Parent issued on or after the date of the indenture in accordance with the Fixed Charge Coverage Ratio test described below under the caption Incurrence of Indebtedness and Issuance of Preferred Stock; payments of cash, dividends, distributions, advances or other Restricted Payments by Parent or any of its Restricted
- (8) Subsidiaries to allow the payment of cash in lieu of the issuance of fractional shares upon (i) the exercise of options or warrants or (ii) the conversion or exchange of Capital Stock of any such Person; the repurchase, redemption or other acquisition or retirement for value of any subordinated Indebtedness pursuant to the provisions similar to those described under the captions Repurchase at the Option of Holders Change of
- (9) Control and Repurchase at the Option of Holders Asset Sales; provided that all notes tendered by holders of the notes in connection with the related Change of Control Offer or Asset Sale Offer, as applicable, have been repurchased, redeemed or acquired for value; and so long as no Default or Event of Default has occurred and is continuing, other Restricted Payments in an
- (10) aggregate amount not to exceed \$40.0 million since the date of the indenture; *provided, however*, that the amount of any dividends or any other payments or distributions on account of Parent's or any of its Restricted Subsidiaries, Equity Interests and any purchase or redemption of

TABLE OF CONTENTS

any Equity Interests of Parent or any direct or indirect parent of Parent made pursuant to this clause (10) shall not exceed \$10.0 million since the date of the indenture; *provided, further* that such amount shall increase to \$15.0 million if, at the time of such Restricted Payment after giving pro forma effect thereto, the Consolidated Total Debt Ratio for Parent's most recently ended four fiscal quarters for which internal financial statements are available immediately preceding the date on which such Restricted Payment is made would have been no greater than 3.25 to 1.0.

The amount of all Restricted Payments (other than cash) will be the Fair Market Value on the date of the Restricted Payment of the asset(s) or securities proposed to be transferred or issued by Parent or such Restricted Subsidiary, as the case may be, pursuant to the Restricted Payment. The Fair Market Value of any assets or securities that are required to be valued by this covenant will be determined by the Board of Directors of Parent whose resolution with respect thereto will be delivered to the trustee. The Board of Directors' determination must be based upon an opinion or appraisal issued by an accounting, appraisal or investment banking firm of national standing if the Fair Market Value exceeds \$20.0 million.

**Incurrence of Indebtedness and Issuance of Preferred Stock**

The indenture provides that Parent will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, create, incur, issue, assume, guarantee or otherwise become directly or indirectly liable, contingently or otherwise, with respect to (collectively, incur) any Indebtedness (including Acquired Debt), and Parent will not issue any Disqualified Stock and will not permit any of its Restricted Subsidiaries to issue any shares of preferred stock; *provided, however*, that Parent may incur Indebtedness (including Acquired Debt) or issue Disqualified Stock, and the Guarantors may incur Indebtedness (including Acquired Debt) or issue preferred stock, if the Fixed Charge Coverage Ratio for Parent's most recently ended four full fiscal quarters for which internal financial statements are available immediately preceding the date on which such additional Indebtedness is incurred or such Disqualified Stock or such preferred stock is issued, as the case may be, would have been at least 2.0 to 1.0, determined on a pro forma basis (including a pro forma application of the net proceeds therefrom), as if the additional Indebtedness had been incurred or the Disqualified Stock or the preferred stock had been issued, as the case may be, at the beginning of such four-quarter period.

The foregoing limitations will not prohibit the incurrence of any of the following items of Indebtedness (collectively, Permitted Debt):

- the incurrence by Parent and its Restricted Subsidiaries of additional Indebtedness and letters of credit and bankers acceptances under Credit Facilities in an aggregate principal amount at any one time outstanding under this clause (1) (with letters of credit being deemed to have a principal amount equal to the maximum potential liability of Parent and its Restricted Subsidiaries thereunder) not to exceed \$385.0 million at the time of such incurrence;
- (2) the incurrence by Parent and its Restricted Subsidiaries of the Existing Indebtedness;
- the incurrence by Parent and the Guarantors of Indebtedness represented by the notes and the related Note Guarantees to be issued on the date of the indenture and the exchange notes and the related Note Guarantees to be issued pursuant to the registration rights agreement;
- (3) the incurrence by Parent or any of its Restricted Subsidiaries of Indebtedness represented by Capital Lease Obligations, mortgage financings or purchase money obligations, in each case, incurred for the purpose of financing all or any part of the purchase price or cost of design, construction, installation or improvement of property, plant or equipment used in the business of Parent or any of its Restricted Subsidiaries, in an aggregate principal amount, including all Permitted Refinancing Indebtedness incurred to renew, refund, refinance, replace, defease or discharge any Indebtedness incurred pursuant to this clause (4), not to exceed \$20 million at the time of such incurrence;
- (4) the incurrence by Parent or any of its Restricted Subsidiaries of Permitted Refinancing Indebtedness in exchange

for, or the net proceeds of which are used to renew, refund, refinance, replace, defease or discharge any Indebtedness (other than intercompany Indebtedness) that was permitted by the indenture to be incurred under the first paragraph of this covenant or clauses (2), (3), (4), (5) or (13) of this paragraph;

126

---

TABLE OF CONTENTS

- (6) the incurrence by Parent or any of its Restricted Subsidiaries of intercompany Indebtedness between or among Parent and any of its Restricted Subsidiaries; *provided, however*, that:
- (a) if Parent or any of its Restricted Subsidiaries is the obligor on such Indebtedness and the payee is not Parent or a Restricted Subsidiary, such Indebtedness must be unsecured and expressly subordinated to the prior payment in full in cash of all Obligations then due with respect to the notes, in the case of the Issuer, or the Note Guarantee, in the case of a Guarantor; and
- (b) (i) any subsequent issuance or transfer of Equity Interests that results in any such Indebtedness being held by a Person other than Parent or a Restricted Subsidiary of Parent and (ii) any sale or other transfer of any such Indebtedness to a Person that is not either Parent or a Restricted Subsidiary of Parent, will be deemed, in each case, to constitute an incurrence of such Indebtedness by Parent or such Restricted Subsidiary, as the case may be, that was not permitted by this clause (6);
- (7) the issuance by any of Parent's Restricted Subsidiaries to Parent or to any of its Restricted Subsidiaries of shares of preferred stock; *provided, however*, that:
- (a) any subsequent issuance or transfer of Equity Interests that results in any such preferred stock being held by a Person other than Parent or a Restricted Subsidiary of Parent; and
- (b) any sale or other transfer of any such preferred stock to a Person that is not either Parent or a Restricted Subsidiary of Parent, will be deemed, in each case, to constitute an issuance of such preferred stock by such Restricted Subsidiary that was not permitted by this clause (7);
- (8) the incurrence by Parent or any of its Restricted Subsidiaries of Hedging Obligations in the ordinary course of business;
- (9) the guarantee by Parent or any of its Restricted Subsidiaries of Indebtedness of Parent or a Restricted Subsidiary of Parent to the extent that the guaranteed Indebtedness was permitted to be incurred by another provision of this covenant; *provided* that if the Indebtedness being guaranteed is subordinated to or *pari passu* with the notes, then the Guarantee must be subordinated or *pari passu*, as applicable, to the same extent as the Indebtedness guaranteed;
- (10) the incurrence by Parent or any of its Restricted Subsidiaries of Indebtedness in respect of workers' compensation claims, self-insurance obligations, bankers' acceptances, performance and surety bonds in the ordinary course of business;
- (11) the incurrence by Parent or any of its Restricted Subsidiaries of Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument inadvertently drawn against insufficient funds, so long as such Indebtedness is covered within 10 business days;
- (12) Indebtedness arising from agreements providing for indemnification, adjustment of purchase price or similar obligations, in each case, incurred or assumed in connection with the acquisition or disposition of any business, assets or a Subsidiary; *provided* that (A) such Indebtedness is not reflected on the balance sheet of the Issuer or any Restricted Subsidiary (contingent obligations referred to in a footnote or footnotes to financial statements and not otherwise reflected on the balance sheet will not be deemed to be reflected on such balance sheet for purposes of this clause (A)) and (B) in the case of a disposition, the maximum liability in respect of such Indebtedness shall at no time exceed the gross proceeds including noncash proceeds (the fair market value of such noncash proceeds being determined at the time received and without giving effect to any subsequent changes in value) actually received by the Issuer or such Restricted Subsidiary in connection with such disposition; and
- (13) the incurrence by Parent or any of its Restricted Subsidiaries of additional Indebtedness in an aggregate principal amount (or accreted value, as applicable) at any time outstanding, including all Permitted Refinancing Indebtedness incurred to renew, refund, refinance, replace, defease or





TABLE OF CONTENTS

discharge any Indebtedness incurred pursuant to this clause (13) not to exceed the greater of \$50.0 million and 7.5% of Total Assets as of such date of incurrence.

Parent will not incur, and will not permit its Restricted Subsidiaries to incur, any Indebtedness (including Permitted Debt) that is contractually subordinated in right of payment to any other Indebtedness of Parent or such Restricted Subsidiary unless such Indebtedness is also contractually subordinated in right of payment to the notes and the applicable Note Guarantee on substantially identical terms; *provided, however*, that no Indebtedness will be deemed to be contractually subordinated in right of payment to any other Indebtedness of Parent solely by virtue of being unsecured or by virtue of being secured on a junior priority basis.

For purposes of determining compliance with this Incurrence of Indebtedness and Issuance of Preferred Stock covenant, in the event that an item of Indebtedness meets the criteria of more than one of the categories of Permitted Debt described in clauses (1) through (13) above, or is entitled to be incurred pursuant to the first paragraph of this covenant, Parent will be permitted to classify such item of Indebtedness on the date of its incurrence, or later reclassify all or a portion of such item of Indebtedness, in any manner that complies with this covenant. Indebtedness under Credit Facilities outstanding on the date on which notes are first issued and authenticated under the indenture, including any letters of credit issued thereunder, will initially be deemed to have been incurred on such date in reliance on the exception provided by clause (1) of the definition of Permitted Debt. The accrual of interest or preferred stock dividends, the accretion or amortization of original issue discount, the payment of interest on any Indebtedness in the form of additional Indebtedness with the same terms, the reclassification of preferred stock as Indebtedness due to a change in accounting principles, and the payment of dividends on preferred stock or Disqualified Stock in the form of additional shares of the same class of preferred stock or Disqualified Stock will not be deemed to be an incurrence of Indebtedness or an issuance of preferred stock or Disqualified Stock for purposes of this covenant; *provided*, in each such case, that the amount thereof is included in Fixed Charges of Parent as accrued.

For purposes of determining compliance with any U.S. dollar-denominated restriction on the incurrence of Indebtedness, the U.S. dollar-equivalent principal amount of Indebtedness denominated in a foreign currency shall be utilized, calculated based on the relevant currency exchange rate in effect on the date such Indebtedness was incurred.

Notwithstanding any other provision of this covenant, the maximum amount of Indebtedness that Parent or any Restricted Subsidiary may incur pursuant to this covenant shall not be deemed to be exceeded solely as a result of fluctuations in exchange rates or currency values.

The amount of any Indebtedness outstanding as of any date will be:

- (a) the accreted value of the Indebtedness, in the case of any Indebtedness issued with original issue discount;
- (b) the principal amount of the Indebtedness, in the case of any other Indebtedness;
- (c) in respect of Indebtedness of another Person secured by a Lien on the assets of the specified Person, the lesser of:
  - (1) the Fair Market Value of such assets at the date of determination; and
  - (2) the amount of the Indebtedness of the other Person.

**Liens**

The indenture provides that Parent will not and will not permit any of its Restricted Subsidiaries to, create, incur, assume or otherwise cause or suffer to exist or become effective any Lien of any kind (other than Permitted Liens) securing Indebtedness or trade payables upon any of their property or assets, now owned or hereafter acquired, unless all payments due under the indenture and the notes are secured on an equal and ratable basis with the obligations so secured and, if such Lien secures subordinated Indebtedness, the notes are secured by a Lien on the same property, assets, income or profits which is senior to such Lien securing such subordinated Indebtedness to the same extent as the notes are senior to such subordinated Indebtedness, in each case, until such time as such obligations are no longer secured by a Lien.



TABLE OF CONTENTS

**Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries**

The indenture provides that Parent will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, create or permit to exist or become effective any consensual encumbrance or restriction on the ability of any Restricted Subsidiary to:

- (1) pay dividends or make any other distributions on its Capital Stock to Parent or any of its Restricted Subsidiaries, or with respect to any other interest or participation in, or measured by, its profits, or pay any indebtedness owed to Parent or any of its Restricted Subsidiaries;
- (2) make loans or advances to Parent or any of its Restricted Subsidiaries; or
- (3) sell, lease or transfer any of its properties or assets to Parent or any of its Restricted Subsidiaries.

However, the preceding restrictions do not apply to encumbrances or restrictions existing under or by reason of:

- (1) agreements governing Existing Indebtedness and Credit Facilities as in effect on the close of business on the date of the indenture and any amendments, restatements, modifications, renewals, supplements, refundings, replacements or refinancings of those agreements; *provided* that the amendments, restatements, modifications, renewals, supplements, refundings, replacements or refinancings are not materially more restrictive, taken as a whole, with respect to such dividend and other payment restrictions than those contained in those agreements on the date of the indenture;
- (2) the indenture, the notes, the exchange notes, the Note Guarantees and the exchange Note Guarantees to be issued in any exchange offer and related documentation;
- (3) agreements governing other Indebtedness permitted to be incurred under the provisions of the covenant described above under the caption Incurrence of Indebtedness and Issuance of Preferred Stock and any amendments, restatements, modifications, renewals, supplements, refundings, replacements or refinancings of those agreements; *provided* that the restrictions therein are not materially more restrictive, taken as a whole, than those contained in the indenture, the notes and the Note Guarantees;
- (4) applicable law, rule, regulation or order;
- (5) any instrument governing Indebtedness or Capital Stock of a Person acquired by Parent or any of its Restricted Subsidiaries as in effect at the time of such acquisition (except to the extent such Indebtedness or Capital Stock was incurred in connection with or in contemplation of such acquisition), which encumbrance or restriction is not applicable to any Person, or the properties or assets of any Person, other than the Person, or the property or assets of the Person, so acquired; *provided* that, in the case of Indebtedness, such Indebtedness was permitted by the terms of the indenture to be incurred;
- (6) non-assignment provisions in contracts and licenses entered into in the ordinary course of business, including, without limitation, any encumbrance or restriction:
  - (a) that restricts the subletting, assignment or transfer of any property or asset that is subject to a lease, license or similar contract, or the assignment or transfer of any such lease, license or other contract; and
  - (b) pursuant to provisions restricting dispositions of real property interests set forth in any reciprocal easement agreements of Parent or any Restricted Subsidiary;
- (7) purchase money obligations for property acquired in the ordinary course of business and Capital Lease Obligations that impose restrictions on the property purchased or leased of the nature described in clause (3) of the preceding paragraph;
- (8)