RadNet, Inc.
Form 10-Q
May 12, 2008

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

# FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2008

OR

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

COMMISSION FILE NUMBER 0-19019

RADNET, INC.
(Exact name of registrant as specified in charter)

| NEW YORK | 13-3326724 |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

| 1510 COTNER AVENUE<br>LOS ANGELES, CALIFORNIA | 90025 |
|---|---|
| (Address of principal executive offices) | (Zip Code) |

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (310) 478-7808

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

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

Large Accelerated Filer [_] Accelerated Filer [X]
Non-Accelerated Filer [_] Smaller Reporting Company [_]

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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan

confirmed by a court. Yes [X] No [_]

The number of shares of the registrant's common stock outstanding on May 12, 2008, was 35,667,891 shares (excluding treasury shares).

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PART 1 - FINANCIAL INFORMATION

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

| March 31, | December |
|---|---|

| | 2008 | 2007 |
|---|---|---|
| | (unaudited) | |
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | $ -- | $ |
| Restricted cash | 8,046 | |
| Accounts receivable, net | 96,963 | 87, |
| Refundable income taxes | 103 | |
| Prepaid expenses and other current assets | 11,356 | 10, |
| Total current assets | 116,468 | 97, |
| PROPERTY AND EQUIPMENT, NET | 194,599 | 164, |
| OTHER ASSETS | | |
| Goodwill | 94,040 | 84, |
| Other intangible assets | 59,064 | 58, |
| Deferred financing costs, net | 12,825 | 9, |
| Investment in joint ventures | 16,011 | 15, |
| Deposits and other | 4,916 | 4, |
| Total other assets | 186,856 | 171, |
| Total assets | $ 497,923 | $ 433, |
| LIABILITIES AND STOCKHOLDERS' DEFICIT | | |
| CURRENT LIABILITIES | | |
| Accounts payable and accrued expenses | $ 73,684 | $ 59, |
| Due to affiliates | 809 | 1, |
| Notes payable | 4,802 | 3, |
| Current portion of deferred rent | 195 | |
| Obligations under capital leases | 11,780 | 9, |
| Total current liabilities | 91,270 | 74, |
| LONG-TERM LIABILITIES | | |
| Line of credit | 12,379 | 4, |
| Deferred rent, net of current portion | 4,684 | 4, |
| Deferred taxes | 277 | |
| Notes payable, net of current portion | 420,050 | 382, |
| Obligations under capital lease, net of current portion | 27,268 | 22, |
| Other non-current liabilities | 20,357 | 15, |
| Total long-term liabilities | 485,015 | 428, |
| COMMITMENTS AND CONTINGENCIES | | |
| MINORITY INTERESTS | 220 | |
| STOCKHOLDERS' DEFICIT | | |
| Common stock - $.0001 par value, 200,000,000 shares authorized; 35,667,891 and 35,239,558 shares issued and outstanding at March 31, 2008 and December 31, 2007, respectively | 4 | |
| Paid-in-capital | 150,346 | 149, |
| Accumulated other comprehensive loss | (8,571) | (4, |
| Accumulated deficit | (220,361) | (214, |
| Total stockholders' deficit | (78,582) | (69, |
| Total liabilities and stockholders' deficit | $ 497,923 | $ 433, |

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

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

| | Three Months Ended March 31, 2008 | Three Months Ended March 31, 2007 |
|---|---|---|
| NET REVENUE | $ 114,698 | $ 105,815 |
| OPERATING EXPENSES | | |
| Operating expenses | 88,966 | 82,405 |
| Depreciation and amortization | 12,469 | 10,910 |
| Provision for bad debts | 6,487 | 7,553 |
| Loss on sale of equipment | 8 | -- |
| Severance costs | 31 | 538 |
| Total operating expenses | 107,961 | 101,406 |
| INCOME FROM OPERATIONS | 6,737 | 4,409 |
| OTHER EXPENSES (INCOME) | | |
| Interest expense | 13,588 | 10,837 |
| Other income | (32) | -- |
| Total other expense | 13,556 | 10,837 |
| LOSS BEFORE INCOME TAXES, MINORITY INTERESTS AND EARNINGS FROM JOINT VENTURES | (6,819) | (6,428) |
| Provision for income taxes | (123) | (16) |
| Minority interest in income of subsidiaries | (24) | (115) |
| Equity in earnings of joint ventures | 1,491 | 995 |
| NET LOSS | $ (5,475) | $ (5,564) |
| BASIC AND DILUTED NET LOSS PER SHARE | $ (0.15) | $ (0.16) |
| WEIGHTED AVERAGE SHARES OUTSTANDING | | |
| Basic and diluted | 35,561,041 | 34,386,915 |

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

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RADNET, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
THREE MONTHS ENDED MARCH 31, 2008 (unaudited)

(IN THOUSANDS EXCEPT SHARE DATA)

| | Common Stock | | | | Accu O Comp |
|---|---|---|---|---|---|
| | Shares | Amount | Paid-in Capital | Accumulated Deficit | |
| BALANCE - DECEMBER 31, 2007 | 35,239,558 | $ 4 | $ 149,631 | $ (214,886) | $ |
| Issuance of common stock upon exercise of options/warrants | 428,333 | | 261 | -- | |
| Share-based compensation | -- | | 454 | -- | |
| Change in fair value of | -- | -- | | | |
| cash flow hedge | -- | -- | -- | -- | |
| Net loss | -- | -- | -- | (5,475) | |
| Comprehensive loss | | | | | |
| BALANCE - MARCH 31, 2008 | 35,667,891 | $ 4 | $ 150,346 | $ (220,361) | $ |

The accompanying notes are an integral part of these financial statements



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

| | Three Months Ended March 31, 2008 | 200 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net loss | $ (5,475) | $ ( |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 12,469 | 1 |
| Provision for bad debts | 6,487 | |
| Minority interest in income of subsidiaries | 24 | |
| Distributions to minority interests | (10) | |
| Equity in earnings of joint ventures | (1,491) | |
| Distributions from joint ventures | 844 | |
| Deferred rent amortization | 290 | |
| Amortization of deferred financing costs | 531 | |
| Net loss on disposal of assets | 8 | |
| Share-based compensation | 454 | |
| Changes in operating assets and liabilities, net of assets acquired and liabilities assumed in purchase transactions: | | |
| Accounts receivable | (14,182) | (1 |
| Other current assets | (1,027) | ( |
| Other assets | (573) | |
| Accounts payable and accrued expenses | (1,042) | |
| Net cash provided by (used in) operating activities | (2,693) | |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |

| | | |
|---|---|---|
| Purchase of imaging facilities | (15,028) | |
| Purchase of property and equipment | (9,743) | ( |
| Purchase of Radiologix, net of cash acquired | -- | |
| Purchase of equity interest in joint ventures | (328) | |
| Proceeds from sale of equipment | 228 | |
| Purchase of covenant not to compete contract | -- | |
| Payments collected on notes receivable | -- | |
| Net cash used in investing activities | (24,871) | ( |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Cash disbursements in transit | -- | ( |
| Change in restricted cash | (8,046) | |
| Principal payments on notes and leases payable | (4,410) | ( |
| Proceeds from borrowings on credit facility | 35,000 | |
| Net proceeds from borrowings on notes and revolving credit facility | 8,936 | |
| Deferred financing costs | (4,195) | |
| Payments on line of credit | -- | |
| Proceeds from issuance of common stock | 261 | |
| Net cash provided by (used in) financing activities | 27,546 | ( |
| NET DECREASE IN CASH | (18) | ( |
| CASH, beginning of period | 18 | |
| CASH, end of period | $ -- | $ |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Cash paid during the period for interest | $ 11,446 | $ |

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



RADNET, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) (CONTINUED)

SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES

We entered into capital leases for approximately $12.1 million and $4.2 million, excluding capital leases assumed in acquisitions, for the three months ended March 31, 2008 and 2007, respectively. We also acquired capital equipment for approximately $13.2 million during the three months ended March 31, 2008 that we had not paid for as of March 31, 2008. The offsetting amount due is recorded in our consolidated balance sheet under Accounts Payable and Accrued Expenses.

Detail of non-cash investing and financing activity related to acquisitions can be found in Note 2.

RADNET, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - NATURE OF BUSINESS

RadNet, Inc. or RadNet (formerly Primedex Health Systems, Inc.) ("we" or the "Company") was incorporated on October 21, 1985. We operate a group of regional networks comprised of 155 diagnostic imaging facilities located in seven states with operations primarily in California, the Mid-Atlantic, the Treasure Coast area of Florida, Kansas and the Finger Lakes (Rochester) and Hudson Valley areas of New York, providing diagnostic imaging services including magnetic resonance imaging (MRI), computed tomography (CT), positron emission tomography (PET), nuclear medicine, mammography, ultrasound, diagnostic radiology, or X-ray, and fluoroscopy. The Company's operations comprise a single segment for financial reporting purposes.

The results of operations of Radiologix and its wholly-owned subsidiaries have been included in the consolidated financial statements from November 15, 2006, the date of the Company's acquisition of Radiologix. The consolidated financial statements also include the accounts of RadNet Management, Inc., or RadNet Management, and Beverly Radiology Medical Group III (BRMG), which is a professional partnership, all collectively referred to as "us" or "we". The consolidated financial statements also include RadNet Sub, Inc., RadNet Management I, Inc., RadNet Management II, Inc., SoCal MR Site Management, Inc., Radiologix, Inc., Delaware Imaging Partners, Inc. and Diagnostic Imaging Services, Inc. (DIS), all wholly owned subsidiaries of RadNet Management.

Howard G. Berger, M.D. is our President and Chief Executive Officer, a member of our Board of Directors and owns approximately 16% 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 80 of our facilities located in California under a management agreement with us, and contracts with various other independent physicians and physician groups to provide the professional medical services at most of our other California facilities. We generally obtain professional medical services from BRMG in California, rather than provide such services directly or through subsidiaries, in order to comply with California's prohibition against the corporate practice of medicine. However, as a result of our close relationship with Dr. Berger and BRMG, we believe that we are able to better ensure that medical service is provided at our California facilities in a manner consistent with our needs and expectations and those of our referring physicians, patients and payors than if we obtained these services from unaffiliated physician groups. At 13 centers in California and at all of the centers which are located outside of California, we have entered into long-term contracts with prominent radiology groups in the area to provide physician services at those facilities. The operations of BRMG are consolidated with the Company as a result of the contractual and operational relationship among BRMG, Dr. Berger, and us. We are considered to have a controlling financial interest in BRMG pursuant to the guidance in Emerging Issues Task Force Issue 97-2 (EITF 97-2). BRMG is a partnership of Pronet Imaging Medical Group, Inc. and Beverly Radiology Medical Group, both of which are 99%-owned by Dr. Berger. RadNet provides non-medical, technical and administrative services to BRMG for which it receives a management fee.

Outside of California (and in 13 of our California facilities) we contract with third party radiology practices to 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 radiological services. The contracted radiology practices generally have: outstanding physician and practice credentials and

reputations; strong competitive market positions; a broad sub-specialty mix of physicians; a history of growth and potential for continued growth. In these facilities we enter into long-term agreements with radiology practice groups (typically 40 years). Under these arrangements, in addition to obtaining technical fees for the use of our diagnostic imaging equipment and the provision of technical services, we provide management services and receive a fee based on the practice group's professional revenue, including revenue derived outside of our diagnostic imaging centers. We own the diagnostic imaging equipment and, therefore, receive 100% of the technical reimbursements associated with imaging procedures. The radiology practice groups retain the professional reimbursements associated with imaging procedures after deducting management service fees. Our management service fees are included in net revenue in the consolidated statement of operations and totaled $8.3 million and $7.9 million for the three months ended March 31 2008 and 2007, respectively. We have no financial controlling interest in the contracted radiology practices, as defined in EITF 97-2; accordingly, we do not consolidate the financial statements of those practices in our consolidated financial statements.

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X and, therefore, do not include all information and footnotes necessary for a fair presentation of financial position, results of operations and cash flows in conformity with U.S. generally accepted accounting principles complete financial statements; however, in the opinion of our management, all adjustments consisting of normal recurring adjustments necessary for a fair presentation of financial position, results of operations and cash flows for the interim periods ended March 31, 2008 and 2007 have been made. The results of operations for any interim period are not necessarily indicative of the results for a full year. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes thereto contained in our Annual Report on Form 10-K for the year ended December 31, 2007.

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LIQUIDITY AND CAPITAL RESOURCES

We had a working capital balance of $25.2 million and $23.2 million at March 31, 2008, and December 31, 2007, respectively. We had net losses of $5.5 million and $5.6 million for the three months ended March 31, 2008 and 2007, respectively. We also had a stockholders' deficit of $78.6 million and $69.8 million at March 31, 2008 and December 31, 2007, respectively.

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

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

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

Our ability to generate sufficient cash flow from operations to make

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

On February 22, 2008, we secured a second incremental $35 million ("Second Incremental Facility") of capacity as part of our existing credit facilities with GE Commercial Finance Healthcare Financial Services. The Second Incremental Facility consists of an additional $35 million as part of our second lien term loan and the first lien term loan or revolving credit facility may be increased by up to an additional $40 million sometime in the future. As part of the transaction, partly due to the drop in LIBOR of over 2.00% since the credit facilities were established in November 2006, we increased the Applicable LIBOR Margin to 4.25% for the revolving credit facility and the term loan to 9% from 6% for the second lien term loan. The additions to our existing credit facilities are intended to provide capital for near-term opportunities and future expansion.

NOTE 2 - FACILITY ACQUISITIONS AND DIVESTITURES

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 have made a preliminary purchase price allocation of the acquired assets and liabilities, and approximately $6.7 million of goodwill was recorded with respect to this transaction.

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 have made a preliminary purchase price allocation of the acquired assets and liabilities, and approximately $3.2 million of goodwill, and $1.2 million for covenants not to compete, was recorded with respect to this transaction.



NOTE 3 - LOSS PER SHARE

Loss per share is based upon the weighted average number of shares of common stock and common stock equivalents outstanding, as follows (in thousands except share and per share data):

| | Three Months Ended March 31, | |
|---|---|---|
| | 2008 | 2007 |

| | (unaudited) | |
|---|---|---|
| Net loss | $ (5,475) | $ (5,564) |
| BASIC LOSS PER SHARE | | |
| Weighted average number of common shares outstanding during the period | 35,561,041 | 34,386,915 |
| Basic loss per share | $ (0.15) | $ (0.16) |
| DILUTED LOSS PER SHARE | | |
| Weighted average number of common shares outstanding during the period | 35,561,041 | 34,386,915 |
| Add additional shares issuable upon exercise of stock options and warrants | -- | -- |
| Weighted average number of common shares used in calculating diluted earnings per share | 35,561,041 | 34,386,915 |
| Diluted loss per share | $ (0.15) | $ (0.16) |

For the three months ended March 31, 2008 and 2007, we excluded all options and warrants in the calculation of diluted loss per share because their effect is antidilutive.

NOTE 4 - INVESTMENT IN JOINT VENTURES

We have nine unconsolidated joint ventures with ownership interests ranging from 22% to 50%. These joint ventures represent partnerships with hospitals, health systems or radiology practices and were formed for the purpose of owning and operating diagnostic imaging centers. Professional services at the joint venture diagnostic imaging centers are performed by contracted radiology practices or a radiology practice that participates in the joint venture. Our investment in these joint ventures is accounted for under the equity method. Investment in joint ventures increased $1.0 million to $16.0 million at March 31, 2008 compared to $15.0 million at December 31, 2007. This increase is primarily related to our purchase of an additional $328,000 of share holdings in joint ventures that were existing as of December 31, 2007 as well as our equity earnings of $1.5 million for the three months ended March 31, 2008, offset by $844,000 of distributions received during the period.

Total assets at March 31, 2008 include notes receivable from certain unconsolidated joint ventures aggregating $254,000. Interest income related to these notes receivable was approximately $5,000 and $17,000 for the three months ended March 31, 2008 and 2007, respectively. We also received management service fees from the centers underlying these joint ventures of $1.8 million and $1.0 million for the three months ended March 31, 2008 and 2007, respectively.

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The following table is a summary of key financial data for these joint ventures as of and for the three months ended March 31, 2008 and 2007 (in thousands):

March 31,

| Balance Sheet Data: | 2008 | 2007 |
|---|---|---|
| Current assets | $ 17,322 | $ 16 |
| Noncurrent assets | 24,826 | 12 |
| Current liabilities | (5,342) | (3 |
| Noncurrent liabilities | (9,397) | |
| Total net assets | $ 27,409 | $ 25 |
| Book value of Radnet joint venture interests | $ 12,831 | $ 9 |
| Cost in excess of book value of acquired joint venture interests | 3,180 | |
| Total value of Radnet joint venture interests | $ 16,011 | $ 9 |
| Total book value of other joint venture partner interests | $ 14,578 | $ 15 |
| Statement of Operations Data: | | |
| Net revenue | $ 19,507 | $ 14 |
| Net income | $ 3,831 | $ 3 |

NOTE 5 - SHARE BASED COMPENSATION

We have three long-term incentive plans. The 1992 plan has not issued options since the inception of the 2000 plan and the 2000 plan has not issued options since the adoption of the 2006 plan. The 2006 plan reserves 2,500,000 shares of common stock. Options granted under the plan are intended to qualify as incentive stock options under existing tax regulations. In addition, we have issued non-qualified stock options and warrants from time to time in connection with acquisitions and for other purposes and have also issued stock under the plans. Employee stock options and warrants generally vest over three to five years and expire five to ten years from date of grant.

As of March 31, 2008, 345,250, or approximately 28.3%, of all the outstanding stock options and warrants are fully vested. During the three months ended March 31, 2008, we granted options and warrants to acquire 120,000 shares of common stock.

We have issued warrants outside the 2006 plan under various types of arrangements to employees, in conjunction with debt financing and in exchange for outside services. All warrants outside the plan are issued with an exercise price equal to the fair market value of the underlying common stock on the date of issuance. The warrants expire from five to seven years from the date of grant. Vesting terms are determined by the board of directors or the compensation committee of the board of directors at the date of issuance.

As of March 31, 2008, 2,817,904, or approximately 79.5%, of all the outstanding warrants outside the 2006 plan are fully vested. During the three months ended March 31, 2008, we did not grant any warrants outside the 2006 plan.

The compensation expense recognized for all equity-based awards is net of estimated forfeitures and is recognized over the awards' service period. In accordance with Staff Accounting Bulletin ("SAB") No. 107, we classified equity-based compensation in operating expenses with the same line item as the majority of the cash compensation paid to employees.

The following tables illustrate the impact of equity-based compensation on

reported amounts (in thousands except per share data):

| | For the Three Months Ended March 31, | | | |
|---|---|---|---|---|
| | 2008 | | 2007 | |
| | Impact of Equity-Based Compensation | | Impact of Equity-Based Compensation | |
| | As Reported | Compensation | As Reported | Compensation |
| Income from operations | $ 6,737 | $ (454) | $ 4,409 | $ (2,220) |
| Loss before income tax | $ (5,352) | $ (454) | $ (5,548) | $ (2,220) |
| Net loss | $ (5,475) | $ (454) | $ (5,564) | $ (2,220) |
| Net basic and diluted loss per share | $ (0.15) | $ (0.01) | $ (0.16) | $ (0.06) |



The following summarizes all of our option and warrant activity for the three months ended March 31, 2008:

| Outstanding Options and Warrants Under the 2006 Plan | Shares | Weighted Average Exercise Price Per Common Share | Weighted Av Remainin Contractual (in yea |
|---|---|---|---|
| Balance, December 31, 2007 | 1,165,250 | $ 5.74 | |
| Granted | 120,000 | 7.78 | |
| Exercised | (50,000) | 1.44 | |
| Canceled or expired | (15,000) | 9.50 | |
| Balance, March 31, 2008 | 1,220,250 | $ 6.07 | 5.48 |
| Exercisable at March 31, 2008 | 345,250 | $ 3.96 | 1.08 |

| Non-Plan Outstanding Warrants | Shares | Weighted Average Exercise Price Per Common Share | Weighted A Remaini Contractua (in yea |
|---|---|---|---|
| Balance, December 31, 2006 | 3,996,667 | $ 1.85 | |
| Granted | - | -- | |
| Exercised | (378,333) | 1.07 | |
| Canceled or expired | (73,763) | 1.85 | |
| Balance, March 31, 2008 | 3,544,571 | $ 1.93 | 3.53 |
| Exercisable at March 31, 2008 | 2,817,904 | $ 1.29 | 2.77 |

The aggregate intrinsic value in the table above represents the difference between our closing stock price on March 31, 2008 and the exercise price, multiplied by the number of in-the-money options and warrants on March 31, 2008. Total intrinsic value of options and warrants exercised during the three months ended March 31, 2008 was approximately $3.2 million. As of March 31, 2008, total unrecognized share-based compensation expense related to non-vested employee

awards was approximately $5.6 million, which is expected to be recognized over a weighted average period of approximately 4.0 years.

The fair value of each option/warrant granted is estimated on the grant date using the Black-Scholes option pricing model which takes into account as of the grant date the exercise price and expected life of the option/warrant, the current price of the underlying stock and its expected volatility, expected dividends on the stock and the risk-free interest rate for the term of the option/warrant.

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

| | Risk-free Interest Rate | Expected Life | Expected Volatility | Expected Dividends |
|---|---|---|---|---|
| March 31, 2008 | 2.52% | 4.2 years | 86.17% | -- |
| March 31, 2007 | 4.66% | 3.8 years | 94.36% | -- |

We have determined the expected term assumption under the "Simplified Method" as defined in SAB 107, as amended by SAB 110. The expected stock price volatility is based on the historical volatility of our stock. The risk-free interest rate is based on the U.S. Treasury yield in effect at the time of grant with an equivalent remaining term. We have not paid dividends in the past and do not currently plan to pay any dividends in the near future.

The weighted-average grant date fair value of stock options and warrants granted during the three months ended March 31, 2008 and 2007 was $4.95 and $3.19, respectively.



NOTE 6 - FAIR VALUE MEASUREMENTS

In September 2006, the FASB issued SFAS 157, FAIR VALUE MEASUREMENTS. SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States, and expands disclosures about fair value measurements. We have adopted the provisions of SFAS 157 as of January 1, 2008 for financial instruments. Although the adoption of SFAS 157 did not materially impact our financial position, results of operations, or cash flow, we are now required to provide additional disclosures as part of our financial statements.

SFAS 157 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers are: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The Company maintains interest rate swaps which are required to be recorded at fair value on a recurring basis. At March, 31, 2008 the fair value of these swaps of $11.1 million was determined using Level 2 inputs and is included in other non-current liabilities.

NOTE 7 - SUBSEQUENT EVENTS

On April 15, 2008, we completed our purchase of the assets of five of six previously announced Los Angeles area imaging centers from InSight Health Corp.

The completion of our purchase of the sixth center, in Van Nuys, California, is pending third-party approvals. The centers we acquired include the former InSight centers in Simi Valley, Thousand Oaks, Westlake, Encino, and Valencia. The centers provide a combination of imaging modalities, including MRI, CT, X-ray, Ultrasound and Mammography. The cash purchase price was funded by a portion of the recently completed incremental term loan provided by GE Healthcare Financial Services. The operations of the five centers historically have produced approximately $7 million in annual revenue.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements reflect, among other things, management's current expectations and anticipated results of operations, all of which are subject to known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements, or industry results, to differ materially from those expressed or implied by such forward-looking statements. Therefore, any statements contained herein that are not statements of historical fact may be forward-looking statements and should be evaluated as such. Without limiting the foregoing, the words "believes," "anticipates," "plans," "intends," "will," "expects," "should" and similar words and expressions are intended to identify forward-looking statements. Except as required under the federal securities laws or by the rules and regulations of the SEC, we assume no obligation to update any such forward-looking information to reflect actual results or changes in the factors affecting such forward-looking information. The factors included in "Risks Relating to Our Business," in our Annual Report on Form 10-K for the fiscal year ended December 31, 2007, as amended or supplemented by the information if any, in Part II - Item 1A below, among others, could cause our actual results to differ materially from those expressed in, or implied by, the forward-looking statements.

The Company intends that all forward-looking statements made will be subject to the safe harbor protection of the federal securities laws pursuant to Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are based upon, among other things, the Company's assumptions with respect to:

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



You should consider the limitations on, and risks associated with,

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

OVERVIEW

The following discussion should be read along with the unaudited consolidated condensed financial statements included in this Form 10-Q, as well as the Company's 2007 Annual Report on Form 10-K filed with the Securities and Exchange Commission, which provides a more thorough discussion of the Company's services, industry outlook, and business trends.

We operate a group of regional networks comprised of 155 diagnostic imaging facilities located in seven states with operations primarily in California, the Mid-Atlantic, the Treasure Coast area of Florida, Kansas and the Finger Lakes (Rochester) and Hudson Valley areas of New York, providing diagnostic imaging services including magnetic resonance imaging (MRI), computed tomography (CT), positron emission tomography (PET), nuclear medicine, mammography, ultrasound, diagnostic radiology, or X-ray, and fluoroscopy. The Company's operations comprise a single segment for financial reporting purposes.

The results of operations of Radiologix and its wholly-owned subsidiaries have been included in the consolidated financial statements from the date of acquisition, November 15, 2006. The consolidated financial statements also include the accounts of Radnet Management, Inc., or RadNet Management, and Beverly Radiology Medical Group III (BRMG), which is a professional partnership, all collectively referred to as "us" or "we". The consolidated financial statements also include Radnet Sub, Inc., Radnet Management I, Inc., Radnet Management II, Inc., SoCal MR Site Management, Inc., Diagnostic Imaging Services, Inc. (DIS), Delaware Imaging Partners, Inc. and Radiologix, Inc., all wholly owned subsidiaries of RadNet Management.

Howard G. Berger, M.D. is our President and Chief Executive Officer, a member of our Board of Directors and owns approximately 16% 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 77 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. At 13 centers in California and at all of the centers which are located outside of California, we have entered into long-term contracts with prominent radiology groups in the area to provide physician services at those facilities. The operations of BRMG are consolidated with us as a result of the contractual and operational relationship among BRMG, Dr. Berger, and us. We are considered to have a controlling financial interest in BRMG pursuant to the guidance in Emerging Issues Task Force Issue 97-2 (EITF 97-2). BRMG is a partnership of Pronet Imaging Medical

Group, Inc. and Beverly Radiology Medical Group, both of which are 99%-owned by Dr. Berger. RadNet provides non-medical, technical and administrative services to BRMG for which it receives a management fee (see "BRMG" for a discussion of our management agreement with BRMG).

Outside of California we contract with radiology practices to provide professional services, including supervision and interpretation of diagnostic imaging procedures, in our non-California diagnostic imaging centers and 10 California centers. The radiology practices maintain full control over the provision of professional radiological services. The contracted radiology practices generally have outstanding physician and practice credentials and reputations; strong competitive market positions; a broad sub-specialty mix of physicians; a history of growth and potential for continued growth.

In these facilities we enter into long-term agreements with radiology practice groups (typically 40 years). Under these arrangements, in addition to obtaining technical fees for the use of our diagnostic imaging equipment and the provision of technical services, we provide management services and receive a fee based on the practice group's professional revenue, including revenue derived outside of our diagnostic imaging centers. We own the diagnostic imaging assets and, therefore, receive 100% of the technical reimbursements associated with imaging procedures. We have no financial controlling interest in the contracted radiology practices, as defined in EITF 97-2; accordingly, we do not consolidate the financial statements of those practices in our consolidated financial statements.



CRITICAL ACCOUNTING ESTIMATES

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

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

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

The SEC, defines critical accounting estimates as those that are both most important to reflect a company's financial condition and results of operations and require management's most difficult, subjective or complex judgment, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods.

As of the period covered in this report, there have been no material changes to the critical accounting estimates we use, and have explained, in our annual report on Form 10-K for the fiscal year ended December 31, 2007.

RESULTS OF OPERATIONS

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

RADNET, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

| | Three Months Ended March 31, | |
|---|---|---|
| | 2008 | 2007 |
| NET REVENUE | 100.0% | 100.0% |
| OPERATING EXPENSES | | |
| Operating expenses | 77.6% | 77.9% |
| Depreciation and amortization | 10.9% | 10.3% |
| Provision for bad debts | 5.7% | 7.1% |
| Loss on sale of equipment | 0.0% | 0.0% |
| Severance costs | 0.0% | 0.5% |
| Total operating expenses | 94.1% | 95.8% |
| INCOME FROM OPERATIONS | 5.9% | 4.2% |
| OTHER EXPENSES (INCOME) | | |
| Interest expense | 11.8% | 10.2% |
| Other expense | 0.0% | 0.0% |
| Total other expense | 11.8% | 10.2% |
| LOSS BEFORE INCOME TAXES, MINORITY INTERESTS AND EARNINGS FROM JOINT VENTURES | -5.9% | -6.1% |
| Provision for income taxes | -0.1% | 0.0% |
| Minority interest in income of subsidiaries | 0.0% | -0.1% |
| Equity in earnings of joint ventures | 1.3% | 0.9% |
| NET LOSS | -4.8% | -5.3% |



THREE MONTHS ENDED MARCH 31, 2008 COMPARED TO THE THREE MONTHS ENDED MARCH 31, 2007

NET REVENUE

Net revenue for the three months ended March 31, 2008 was $114.7 million compared to $105.8 million for the three months ended March 31, 2007, an increase of $8.9 million, or 8.4%. This increase is mainly due to an increase in procedure volumes from existing centers as well as from the addition of new centers.

OPERATING EXPENSES

Operating expenses for the three months ended March 31, 2008 increased approximately $6.6 million, or 8.0%, from $82.4 million for the three months ended March 31, 2007 to $89.0 million for the three months ended March 31, 2008. The following table sets forth our operating expenses for the three months ended March 31, 2008 and 2007 (in thousands):

| | Three Months Ended March 31, | |
|---|---|---|
| | 2008 | 2007 |
| Salaries and professional reading fees, excluding stock compensation | $ 49,385 | $ 45,294 |
| Stock compensation | 454 | 2,220 |
| Building and equipment rental | 10,256 | 10,062 |
| General administrative expenses | 28,871 | 24,709 |
| NASDAQ one-time listing fee | -- | 120 |
| Operating expenses | 88,966 | 82,405 |
| Depreciation and amortization | 12,469 | 10,910 |
| Provision for bad debts | 6,487 | 7,553 |
| Loss on sale of equipment, net | 8 | -- |
| Severance costs | 31 | 538 |
| Total operating expenses | $107,961 | $101,406 |

SALARIES AND PROFESSIONAL READING FEES (EXCLUDING STOCK COMPENSATION AND SEVERANCE)

Salaries and professional reading fees increased $4.1 million, or 9.0%, to $49.4 million for the three months ended March 31, 2008 compared to $45.3 million for the three months ended March 31, 2007. The increase is primarily due to increased staffing related to the addition of imaging centers acquired during the second half of 2007 and the first half of 2008.

STOCK BASED COMPENSATION

Stock compensation decreased $1.8 million to $454,000 for the three months ended March 31, 2008 compared to $2.2 million for the three months ended March 31, 2007. This decrease is primarily due to $1.7 million of stock based compensation expense recorded during the three months ended March 31, 2007 as a result of the acceleration of vesting of certain warrants.

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BUILDING AND EQUIPMENT RENTAL

Building and equipment rental expenses increased $194,000, or 1.9%, to $10.3 million for the three months ended March 31, 2008 compared to $10.0 million for the three months ended March 31, 2007. The increase is primarily due to increased facility rent related to the addition of imaging centers acquired during the second half of 2007 and the first half of 2008. Also included in this increase is our adjustment to building lease expense resulting from straight-lining the built-in rent escalators existing in some of our lease contracts.

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 $4.2 million, or 16.8%, for the three months ended March 31, 2008 compared to the previous period. The increase is in line with our increase in procedure volumes at both existing centers as well as new centers.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization increased $1.6 million, or 14.3%, to $12.5 million for the three months ended March 31, 2008 when compared to the same period last year. The increase is primarily due to property and equipment additions for new and existing centers.

PROVISION FOR BAD DEBTS

Provision for bad debts decreased $1.1 million, or 14.1%, to $6.5 million, or 5.7% of net revenue, for the three months ended March 31, 2008 compared to $7.6 million, or 7.1% of net revenue, for the three months ended March 31, 2007. The decrease 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.

SEVERANCE

During the three months ended March 31, 2008, we recorded severance costs of $31,000 associated with the integration of Radiologix, compared to $538,000 recorded during the three months ended March 31, 2007.

INTEREST EXPENSE

Interest expense for the three months ended March 31, 2008 increased approximately $2.8 million, or 25.4%, from the same period in 2007. The increase is primarily due to the $60M increase in Term Loans B & C and increased borrowing on the line of credit as well as $951,000 of realized losses on our fair value hedges recorded for the three months ended March 31, 2008 compared to $138,000 recorded for the three months ended March 31, 2007. Also included in interest expense for the three months ended March 31, 2008 and 2007 is amortization of deferred loan costs of $531,000 and 469,000, respectively.

INCOME TAX EXPENSE

For the three months ended March 31, 2008, we recorded $123,000 in income tax expense related to certain state tax obligations of Radiologix.

EQUITY IN EARNINGS FROM UNCONSOLIDATED JOINT VENTURES

For the three months ended March 31, 2008, we recognized equity in earnings from unconsolidated joint ventures of $1.5 million compared to $1.0 million for the three months ended March 31, 2007. This increase is due to our purchase of additional equity holdings in existing joint ventures as well as the deconsolidation in the fourth quarter of 2007of a consolidated joint venture bringing the number of these joint ventures from eight to nine.

LIQUIDITY AND CAPITAL RESOURCES

On November 15, 2006, we entered into a $405 million senior secured credit facility with GE Commercial Finance Healthcare Financial Services (the "November 2006 Credit Facility"). This facility was used to finance our acquisition of Radiologix, refinance existing indebtedness, pay transaction costs and expenses relating to our acquisition of Radiologix, and to provide financing for working

capital needs post-acquisition. The facility consists of a revolving credit facility of up to $45 million, a $225 million first lien Term Loan and a $135 million second lien Term Loan. The revolving credit facility has a term of five years, the term loan has a term of six years and the second lien term loan has a term of six and one-half years. Interest is payable on all loans initially at an Index Rate plus the Applicable Index Margin, as defined. The Index Rate is initially a floating rate equal to the higher of the rate quoted from time to time by The Wall Street Journal as the "base rate on corporate loans posted by at least 75% of the nation's largest 30 banks" or the Federal Funds Rate plus 50 basis points. The Applicable Index Margin on each of the revolving credit facility and the term loan is 2% and on the second lien term loan is 6%. We may request that the interest rate instead be based on LIBOR plus the Applicable LIBOR Margin, which is 3.5% for the revolving credit facility and the term loan and 7.5% for the second lien term loan. The credit facility includes customary covenants for a facility of this type, including minimum fixed charge coverage ratio, maximum total leverage ratio, maximum senior leverage ratio, limitations on indebtedness, contingent obligations, liens, capital expenditures, lease obligations, mergers and acquisitions, asset sales, dividends and distributions, redemption or repurchase of equity interests, subordinated debt payments and modifications, loans and investments, transactions with affiliates, changes of control, and payment of consulting and management fees.

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On August 23, 2007, we secured an incremental $35 million ("Incremental Facility") as part of our existing credit facilities with GE Commercial Finance Healthcare Financial Services. The Incremental Facility consists of an additional $25 million as part of our first lien Term Loan and $10 million of additional capacity under our existing revolving line of credit. The Incremental Facility will be used to fund certain identified strategic initiatives and for general corporate purposes. The terms of our first lien term loan as explained above will remain unchanged.

On February 22, 2008, we secured a second incremental $35 million ("Second Incremental Facility") of capacity as part of our existing credit facilities with GE Commercial Finance Healthcare Financial Services. The Second Incremental Facility consists of an additional $35 million as part of our second lien term loan and the first lien term loan or revolving credit facility may be increased by up to an additional $40 million sometime in the future. As part of the transaction, partly due to the drop in LIBOR of over 2.00% since the credit facilities were established in November 2006, we increased the Applicable LIBOR Margin to 4.25% for the revolving credit facility and the term loan and to 9.0% from 6.0% for the second lien term loan. The additions to our existing credit facilities are intended to provide capital for near-term opportunities and future expansion.

As part of the senior secured credit facility financing, we swapped 50% of the aggregate principal amount of the facilities to a floating rate within 90 days of the closing. On April 11, 2006, effective April 28, 2006, we entered into an interest rate swap on $73.0 million fixing the LIBOR rate of interest at 5.47% for a period of three years. This swap was made in conjunction with the $161.0 million credit facility that closed on March 9, 2006. In addition, on November 15, 2006, we entered into an interest rate swap 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 on $90.0 million fixing the LIBOR rate of interest at 5.03% for a period of three years. Previously, the interest rate on the above $270.0 million portion of the credit facility was based upon a spread over LIBOR which floats with market conditions.

The Company documents its risk management strategy and hedge effectiveness

at the inception of the hedge, and, unless the instrument qualifies for the short-cut method of hedge accounting, over the term of each hedging relationship. The Company's use of derivative financial instruments is limited to interest rate swaps, the purpose of which is to hedge the cash flows of variable-rate indebtedness. The Company does not hold or issue derivative financial instruments for speculative purposes. In accordance with Statement of Financial Accounting Standards No. 133, derivatives that have been designated and qualify as cash flow hedging instruments are reported at fair value. The gain or loss on the effective portion of the hedge (i.e., change in fair value) is initially reported as a component of other comprehensive income in the Company's Consolidated Statement of Stockholders' Equity. The remaining gain or loss, if any, is recognized currently in earnings. Of the derivatives that were not designated as cash flow hedging instruments, we recorded an increase to interest expense of approximately $951,000, and $138,000 for the three months ended March 31, 2008 and 2007, respectively. The corresponding liability of approximately $2.5 million is included in the other non-current liabilities in the consolidated balance sheets at March 31, 2008. Of the derivatives that were designated as cash flow hedging instruments, we recorded $8.6 million to accumulated other comprehensive loss, and an offsetting liability of the same amount for the fair value of these hedging instruments at December 31, 2007.

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

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

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



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

SOURCES AND USES OF CASH

Cash used by operating activities was $2.7 million for the three months ended March 31, 2008 compared to cash provided by operating activities of $9.0 million for the three months ended March 31, 2007.

Cash used by investing activities was $24.9 million and $5.7 million for the three months ended March 31, 2008 and 2007, respectively. For the three months ended March 31, 2008, we purchased property and equipment for

approximately $9.7 million and acquired the assets and businesses of additional imaging facilities for approximately $15.0 million. We also purchased additional equity interests in joint ventures of $328,000.

Cash provided by financing activities was $27.5 million for the three months ended March 31, 2008 and cash used in financing activities was $5.3 million for the three months ended March 31, 2007. The cash provided by financing activities for the three months ended March 31, 2008 was primarily related to our borrowing of an additional $35 million as part of our second lien term loan with GE Commercial Healthcare Financial Services.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

FOREIGN CURRENCY. 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 RATES. 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. On November 15, 2006, we entered into a $405 million senior secured credit facility with GE Commercial Finance Healthcare Financial Services. The facility consists of a revolving credit facility of up to $45 million, a $225 million term loan and a $135 million second lien term loan. Interest is payable on all loans initially at an Index Rate plus the Applicable Index Margin, as defined. The Index Rate is initially a floating rate equal to the higher of the rate quoted from time to time by The Wall Street Journal as the "base rate on corporate loans posted by at least 75% of the nation's largest 30 banks" or the Federal Funds Rate plus 50 basis points. The Applicable Index Margin on each the revolving credit facility and the term loan is 2% and on the second lien term loan is 6%. We may request that the interest rate instead be based on LIBOR plus the Applicable LIBOR Margin, which is 3.5% for the revolving credit facility and the term loan and 7.5% for the second lien term loan.

On February 22, 2008, we secured an incremental $35 million ("Second Incremental Facility") as part of our existing credit facilities with GE Commercial Finance Healthcare Financial Services. The Second Incremental Facility consists of an additional $35 million as part of our second lien term loan and the ability to further increase the second lien term loan by up to $25 million and the first line term loan or revolving credit facility by up to an additional $40 million sometime in the future. As part of the transaction, partly due to the drop in LIBOR of over 2.00% since the credit facilities were established in November 2006, we increased the Applicable LIBOR Margin to 4.25% for the revolving credit facility and the term loan and 9.0% for the second lien term loan.

DEBENTURES. As part of the financing, we were required to swap at least 50% of the aggregate principal amount of the facilities to a floating rate within 90 days of the close of the agreement on November 15, 2006. On April 11, 2006, effective April 28, 2006, we entered into an interest rate swap on $73.0 million fixing the LIBOR rate of interest at 5.47% for a period of three years. This swap was made in conjunction with the $161.0 million credit facility closed on March 9, 2006. In addition, on November 15, 2006, we entered into an interest rate swap 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 on $90.0 million fixing the LIBOR rate of interest at 5.03% for a period of three years. Previously, the interest rate on the above $270.0 million portion of the credit facility was based upon a spread over LIBOR which floats with market conditions.

ITEM 4. CONTROLS AND PROCEDURES

DISCLOSURE CONTROLS AND PROCEDURES

Our management, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as defined under Rule 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of March 31, 2008, the end of the period covered by this quarterly report on Form 10-Q, due to the existence of the material weaknesses in our financial statement close process and our entity level controls.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

During the period covered in the report on Form 10-Q for the three months ended March 31, 2008, we implemented improvements to our internal controls as explained below:

VALUATION OF ACCOUNTS RECEIVABLE

We have formed a Revenue Committee, which includes the participation of the Chief Executive Officer, Chief Financial Officer, Director of Reimbursement Operations and other financial personnel. The Committee meets every month to review the collection statistics applied to monthly and year-to-date gross charges as well as review the collectability of accounts receivable balances as of the end of each month. The Committee has reviewed and analyzed collection run-out statistics and compared cash collections to historical data and trends during the three months ended March 31, 2008. We believe that the implementation of our Revenue Committee enhanced our controls and improved our ability to accurately value our accounts receivable balances.

FIXED ASSET RECORDING

We have assigned additional resources to track, record and depreciate fixed assets. We have scheduled monthly meetings with the purchasing department and monthly calls with the regional controllers and have identified assets when they were delivered to sites and have recorded correct in-service dates during the three months ended March 31, 2008.

LIABILITY FOR MEDICAL MALPRACTICE EXPOSURE

We have engaged a third-party actuary that assisted us in the determination of IBNR as of March 31, 2008 which we used to adjust our IBNR reserve as of March 31, 2008.

PART II - OTHER INFORMATION

ITEM 1 LEGAL PROCEEDINGS

At March 31, 2008, the status of all current legal matters previously disclosed in Part 1, Item 3, of our Form 10-K for the year ended December 31, 2007 is unchanged except:

In the Matter of the Arbitration Between St. Paul Radiology and Questar

Duluth, Inc. AAA Case No. 33-193Y00282-07.

In connection with our sale of our Duluth, Minnesota imaging center assets in June 2007 we received a demand for arbitration from the radiologists providing professional services at the center stating they were entitled to at least $1.2 million of the $1.3 million paid to us for the imaging center assets. In May 2008, the arbitration panel granted a summary judgment in our favor thereby dismissing the claim against us.

ITEM 1A RISK FACTORS

In addition to the other information set forth in this report, we urge you to carefully consider the factors discussed in Part I, "Item 1A Risk Factors" in our Form 10-K for the year ended December 31, 2007, which could materially affect our business, financial condition and results of operations. The risks described in our Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.



ITEM 2 UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

ITEM 3 DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 5 OTHER INFORMATION

EQUITY COMPENSATION PLAN INFORMATIN

The following table summarizes information with respect to options, warrants and other rights under our equity compensation plans at March 31, 2008 (as adjusted to reflect the reverse one-for-two stock split effected November 2006):

| PLAN CATEGORY | NUMBER OF SECURITIES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS WARRANTS AND RIGHTS | WEIGHTED-AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS WARRANTS AND RIGHTS |
|---|---|---|
| Equity compensation plans approved by security holders | 1,220,250 | $6.07 |
| Equity compensation plans not approved by security holders | * 3,544,571 | $1.93 |
| TOTAL | 4,754,821 | |

* These represent warrants issued in connection with securing the services

of various parties for us. In a few instances they were issued in connection with obtaining financing.

ITEM 6 EXHIBITS

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

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

RADNET, INC.
(Registrant)

Date: May 12, 2008

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

Date: May 12, 2008

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



INDEX TO EXHIBITS

| EXHIBIT NUMBER | DESCRIPTION |
|---|---|
| 10.1 | Form of Indemnification Agreement between the registrant and each of its officers and directors. |
| 31.1 | Certification of Howard G. Berger, M.D. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Mark D. Stolper pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002 of Howard G. Berger, M.D. 32.2 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002 of |

Mark D. Stolper