

RadNet, Inc.
Form 10-Q
May 11, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2015

OR

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

For the transition period from _____ to _____

Commission File Number 001-33307

RadNet, Inc.

(Exact name of registrant as specified in charter)

Delaware
(State or other jurisdiction of

13-3326724
(I.R.S. Employer

Incorporation or organization) Identification No.)

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

**(310) 478-7808

(Registrant's telephone number, including area code)**

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

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

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

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

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

The number of shares of the registrant's common stock outstanding on May 7, 2015 was 44,269,449 shares.

RADNET, INC.

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

	March 31, 2015 (unaudited)	December 31, 2014
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 154	\$ 307
Accounts receivable, net	153,258	148,235
Current portion of deferred tax assets	17,246	17,246
Due from affiliates	1,778	1,561
Prepaid expenses and other current assets	21,884	24,671
Total current assets	194,320	192,020
PROPERTY AND EQUIPMENT, NET	222,171	223,127
OTHER ASSETS		
Goodwill	200,304	200,304
Other intangible assets	46,856	47,624
Deferred financing costs, net of current portion	5,560	6,122
Investment in joint ventures	30,184	32,123
Deferred tax assets, net of current portion	38,912	35,334
Deposits and other	4,098	4,026
Total assets	\$ 742,405	\$ 740,680
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable, accrued expenses and other	\$ 102,275	\$ 97,816
Due to affiliates	1,304	6,289
Deferred revenue	1,762	1,964
Current portion of notes payable	19,437	19,468
Current portion of deferred rent	2,192	2,100
Current portion of obligations under capital leases	5,691	5,637
Total current liabilities	132,661	133,274
LONG-TERM LIABILITIES		
Deferred rent, net of current portion	21,798	20,965
Line of credit	24,700	15,300
Notes payable, net of current portion	545,988	551,059
Obligations under capital lease, net of current portion	4,697	6,143
Other non-current liabilities	6,022	6,241

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Total liabilities	735,866	732,982
EQUITY		
RadNet, Inc. stockholders' equity:		
Common stock - \$.0001 par value, 200,000,000 shares authorized; 43,810,279, and 42,825,676 shares issued and outstanding at March 31, 2015 and December 31, 2014, respectively	4	4
Paid-in-capital	181,572	177,750
Accumulated other comprehensive loss	(149)	(112)
Accumulated deficit	(176,834)	(172,280)
Total RadNet, Inc.'s stockholders' equity	4,593	5,362
Noncontrolling interests	1,946	2,336
Total equity	6,539	7,698
Total liabilities and equity	\$ 742,405	\$ 740,680

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

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

	Three Months Ended	
	March 31,	
	2015	2014
NET REVENUE		
Service fee revenue, net of contractual allowances and discounts	\$ 165,030	\$ 158,763
Provision for bad debts	(7,475)	(6,893)
Net service fee revenue	157,555	151,870
Revenue under capitation arrangements	23,712	17,006
Total net revenue	181,267	168,876
OPERATING EXPENSES		
Cost of operations, excluding depreciation and amortization	168,921	145,030
Depreciation and amortization	14,294	15,571
(Gain) loss on sale and disposal of equipment	(38)	246
Severance costs	36	481
Total operating expenses	183,213	161,328
(LOSS) INCOME FROM OPERATIONS	(1,946)	7,548
OTHER INCOME AND EXPENSES		
Interest expense	9,996	11,772
Meaningful use incentive	(3,270)	(1,762)
Equity in earnings of joint ventures	(1,102)	(1,067)
Loss on early extinguishment of Senior Notes	-	15,456
Other expenses (income)	(3)	2
Total other expenses	5,621	24,401
LOSS BEFORE INCOME TAXES	(7,567)	(16,853)
Benefit from income taxes	3,091	4,478
NET LOSS	(4,476)	(12,375)
Net income attributable to noncontrolling interests	78	49
NET LOSS ATTRIBUTABLE TO RADNET, INC.		
COMMON STOCKHOLDERS	\$ (4,554)	\$ (12,424)
BASIC AND DILUTED LOSS PER SHARE		
ATTRIBUTABLE TO RADNET, INC. COMMON STOCKHOLDERS	\$ (0.11)	\$ (0.31)

WEIGHTED AVERAGE SHARES OUTSTANDING

Basic and Diluted	42,747,329	40,010,080
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The accompanying notes are an integral part of these financial statements.

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

	Three Months Ended March 31,	
	2015	2014
NET LOSS	\$ (4,476)	\$ (12,375)
Foreign currency translation adjustments	(37)	(18)
COMPREHENSIVE LOSS	(4,513)	(12,393)
Less comprehensive income attributable to non-controlling interests	78	49
COMPREHENSIVE LOSS ATTRIBUTABLE TO RADNET, INC. COMMON STOCKHOLDERS	\$ (4,591)	\$ (12,442)

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

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

	Common Stock Shares	Common Stock Amount	Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Radnet, Inc.'s Equity	Noncontrolling Interests	Total Equity
BALANCE - JANUARY 1, 2015	42,825,676	\$ 4	\$177,750	\$(172,280)	\$ (112)	\$5,362	\$ 2,336	\$7,698
Issuance of common stock upon exercise of options	260,180	—	324	—	—	324	—	324
Stock-based compensation	—	—	3,498	—	—	3,498	—	3,498
Issuance of restricted stock and other awards	724,423	—	—	—	—	—	—	—
Distributions paid to noncontrolling interests	—	—	—	—	—	—	(468)	(468)
Change in cumulative foreign currency translation adjustment	—	—	—	—	(37)	(37)	—	(37)
Net (loss) income	—	—	—	(4,554)	—	(4,554)	78	(4,476)
BALANCE - MARCH 31, 2015	43,810,279	\$ 4	\$181,572	\$(176,834)	\$ (149)	\$4,593	\$ 1,946	\$6,539

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

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

	Three Months Ended March 31,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$(4,476)	\$(12,375)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	14,294	15,571
Provision for bad debts	7,475	6,893
Equity in earnings of joint ventures	(1,102)	(1,067)
Distributions from joint ventures	3,041	1,866
Deferred rent amortization	925	343
Amortization and write off of deferred financing costs and loan discount	1,288	1,833
(Gain) loss on sale and disposal of equipment	(38)	246
Loss on early extinguishment of Senior Notes	-	15,456
Stock-based compensation	3,554	1,025
Changes in operating assets and liabilities, net of assets acquired and liabilities assumed in purchase transactions:		
Accounts receivable	(12,498)	(13,923)
Other current assets	2,787	(4,503)
Other assets	(289)	(575)
Deferred taxes	(3,578)	(4,536)
Deferred revenue	(202)	(39)
Accounts payable, accrued expenses and other	6,288	(11,075)
Net cash provided by (used in) operating activities	17,469	(4,860)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of imaging facilities	-	(360)
Purchase of property and equipment	(19,826)	(17,047)
Proceeds from sale of equipment	205	4
Equity contributions in existing and purchase of interest in joint ventures	-	(789)
Net cash used in investing activities	(19,621)	(18,192)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on notes and leases payable	(2,030)	(1,929)
Proceeds from borrowings	-	210,000
Payments on Term Loan Debt/Senior Notes	(5,190)	(204,468)
Deferred financing costs	-	(6,650)
Net proceeds on revolving credit facility	9,400	18,100

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Distributions paid to noncontrolling interests	(468)	(133)
Proceeds from issuance of common stock upon exercise of options/warrants	324	29
Net cash provided by financing activities	2,036	14,949
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(37)	(18)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(153)	(8,121)
CASH AND CASH EQUIVALENTS, beginning of period	307	8,412
CASH AND CASH EQUIVALENTS, end of period	\$154	\$291
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the period for interest	\$8,624	\$14,508

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

RADNET, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

(unaudited)

Supplemental Schedule of Non-Cash Investing and Financing Activities

We acquired equipment and certain leasehold improvements for approximately \$12.3 million and \$5.0 million during the three months ended March 31, 2015 and 2014, respectively, which were not paid for as of March 31, 2015 and 2014, respectively. The offsetting amounts due were recorded in our consolidated balance sheet under accounts payable, accrued expenses and other.

RADNET, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

NOTE 1 – NATURE OF BUSINESS AND BASIS OF PRESENTATION

We provide diagnostic imaging services including magnetic resonance imaging (MRI), computed tomography (CT), positron emission tomography (PET), nuclear medicine, mammography, ultrasound, diagnostic radiology (X-ray), fluoroscopy and other related procedures. At March 31, 2015 we operated directly or indirectly through joint ventures, 259 imaging centers located in California, Maryland, Florida, Delaware, New Jersey, Rhode Island and New York. Our operations comprise a single segment for financial reporting purposes.

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

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