RadNet, Inc.
Form 10-Q
November 09, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2016

o **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	**13-3326724**
(State or other jurisdiction of	**(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 x No o

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 x No o

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

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

The number of shares of the registrant's common stock outstanding on November 4, 2016 was 46,467,404 shares.

RADNET, INC.

Table of Contents

	Page
PART I – FINANCIAL INFORMATION	
ITEM 1. Condensed Consolidated Financial Statements (unaudited)	3
Condensed Consolidated Balance Sheets at September 30, 2016 and December 31, 2015	3
Condensed Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2016 and 2015	4
Condensed Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2016 and 2015	5
Condensed Consolidated Statement of Stockholders' Equity for the Nine Months Ended September 30, 2016	6
Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2016 and 2015	7
Notes to Condensed Consolidated Financial Statements	9
ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	21
ITEM 3. Quantitative and Qualitative Disclosures About Market Risk	38
ITEM 4. Controls and Procedures	38
PART II – OTHER INFORMATION	
ITEM 1. Legal Proceedings	40
ITEM 1A. Risk Factors	40
ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds	40
ITEM 3. Defaults Upon Senior Securities	40
ITEM 4. Mine Safety Disclosures	40
ITEM 5. Other Information	40
ITEM 6. Exhibits	40
SIGNATURES	41

INDEX TO EXHIBITS 42

2

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

RADNET, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS EXCEPT SHARE AND PER SHARE DATA)

	September 30, 2016 **(unaudited)**	**December 31,** 2015
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 358	$ 446
Accounts receivable, net	183,229	162,843
Current portion of deferred tax assets	22,279	22,279
Due from affiliates	3,249	4,815
Prepaid expenses and other current assets	28,566	38,986
Total current assets	237,681	229,369
PROPERTY AND EQUIPMENT, NET	249,397	256,722
OTHER ASSETS		
Goodwill	240,640	239,408
Other intangible assets	43,330	45,253
Deferred financing costs	2,116	2,841
Investment in joint ventures	41,868	33,584
Deferred tax assets, net of current portion	22,939	24,685
Deposits and other	5,428	4,565
Total assets	$ 843,399	$ 836,427
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable, accrued expenses and other	$ 114,716	$ 113,813
Due to affiliates	5,243	6,564
Deferred revenue	1,658	1,598
Current portion of notes payable	22,047	22,383
Current portion of deferred rent	2,861	2,563
Current portion of obligations under capital leases	6,047	10,038
Total current liabilities	152,572	156,959
LONG-TERM LIABILITIES		
Deferred rent, net of current portion	25,889	26,865
Line of credit	1,600	–

Notes payable, net of current portion	614,982	599,914
Obligations under capital lease, net of current portion	3,719	6,385
Other non-current liabilities	4,292	9,843
Total liabilities	803,054	799,966
EQUITY		
RadNet, Inc. stockholders' equity:		
Common stock - $.0001 par value, 200,000,000 shares authorized;46,467,404 and 46,281,189 shares issued and outstanding at September 30, 2016 and December 31, 2015, respectively	4	4
Additional paid-in-capital	197,881	197,297
Accumulated other comprehensive loss	(166)	(153)
Accumulated deficit	(161,022)	(164,571)
Total RadNet, Inc.'s stockholders' equity	36,697	32,577
Non-controlling interests	3,648	3,884
Total equity	40,345	36,461
Total liabilities and equity	$ 843,399	$ 836,427

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

RADNET, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(IN THOUSANDS EXCEPT SHARE DATA)

(unaudited)

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2016	2015	2016	2015
NET REVENUE				
Service fee revenue, net of contractual allowances and discounts	$208,430	$ 192,904	$ 613,031	$ 546,337
Provision for bad debts	(11,253)	(9,433)	(33,883)	(25,295)
Net service fee revenue	197,177	183,471	579,148	521,042
Revenue under capitation arrangements	27,466	24,895	80,448	72,880
Total net revenue	224,643	208,366	659,596	593,922
OPERATING EXPENSES				
Cost of operations, excluding depreciation and amortization	192,752	175,631	583,640	520,348
Depreciation and amortization	17,318	14,601	49,541	43,836
(Gain) loss on sale and disposal of equipment	(66)	738	375	774
Severance costs	2,188	167	2,528	297
Total operating expenses	212,192	191,137	636,084	565,255
INCOME FROM OPERATIONS	12,451	17,229	23,512	28,667
OTHER INCOME AND EXPENSES				
Interest expense	11,404	10,546	32,830	30,965
Meaningful use incentive	–	–	(2,808)	(3,270)
Equity in earnings of joint ventures	(2,576)	(1,992)	(8,129)	(6,301)
Gain on sale of imaging centers	–	(4,823)	–	(4,823)
Gain from return of common stock	–	–	(5,032)	–
Other expenses	174	8	180	418
Total other expenses	9,002	3,739	17,041	16,989
INCOME BEFORE INCOME TAXES	3,449	13,490	6,471	11,678
Provision for income taxes	(1,458)	(5,199)	(2,531)	(4,300)
NET INCOME	1,991	8,291	3,940	7,378
Net income attributable to noncontrolling interests	344	304	391	550
NET INCOME ATTRIBUTABLE TO RADNET, INC. COMMON STOCKHOLDERS	$1,647	$ 7,987	$ 3,549	$ 6,828
BASIC NET INCOME PER SHARE ATTRIBUTABLE TO RADNET, INC. COMMON STOCKHOLDERS	$0.04	$0.18	$0.08	$0.16

DILUTED NET INCOME PER SHARE ATTRIBUTABLE TO RADNET, INC. COMMON STOCKHOLDERS	$0.04	$ 0.18	$ 0.08	$ 0.15
WEIGHTED AVERAGE SHARES OUTSTANDING				
Basic	45,868,629	43,637,022	46,337,993	43,247,002
Diluted	46,333,970	44,751,936	46,748,836	44,704,323

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

4

RADNET, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(IN THOUSANDS)

(unaudited)

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2016	2015	2016	2015
NET INCOME	$ 1,991	$ 8,291	$ 3,940	$ 7,378
Foreign currency translation adjustments	3	7	(166)	(34)
COMPREHENSIVE INCOME	1,994	8,298	3,774	7,344
Less comprehensive income attributable to non-controlling interests	344	304	391	550
COMPREHENSIVE INCOME ATTRIBUTABLE TO RADNET, INC. COMMON STOCKHOLDERS	$1,650	$7,994	$3,383	$6,794

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

RADNET, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF EQUITY

(IN THOUSANDS EXCEPT SHARE DATA)

(unaudited)

	Common Stock Shares	Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Radnet, Inc. Stockholders' Equity	Noncontrolling Interests	Total Equity
BALANCE - JANUARY 1, 2016	46,281,189	$ 4	$ 197,297	$ (153)	$ (164,571)	$ 32,577	$ 3,884	$ 36,461
Issuance of common stock upon exercise of options/warrants	314,448	–	150	–	–	150	–	150
Stock-based compensation	–	–	4,659	–	–	4,659	–	4,659
Issuance of restricted stock and other awards	830,303	–	–	–	–	–	–	–
Return of common stock	(958,536)	–	(5,032)	–	–	(5,032)	–	(5,032)
Purchase of noncontrolling interests	–	–	(185)	–	–	(185)	(135)	(320)
Sale of non-controlling interest	–	–	992	–		992	–	992
Distributions paid to noncontrolling interests	–	–	–	–	–	–	(492)	(492)
Change in cumulative foreign currency translation adjustment	–	–	–	(13)	–	(13)	–	(13)
Net income	–	–	–	–	3,549	3,549	391	3,940
BALANCE - SEPTEMBER 30, 2016	46,467,404	$ 4	$ 197,881	$ (166)	$ (161,022)	$ 36,697	$ 3,648	$ 40,345

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

6

RADNET, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

(unaudited)

	Nine Months Ended September 30,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$3,940	$7,378
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	49,541	43,836
Provision for bad debts	33,883	25,295
Gain from return of common stock	(5,032)	–
Equity in earnings of joint ventures	(8,129)	(6,301)
Distributions from joint ventures	2,929	6,255
Amortization and write off of deferred financing costs and loan discount	4,244	4,000
Loss on sale and disposal of equipment	375	774
Gain on sale of imaging centers	–	(4,823)
Stock-based compensation	4,918	6,477
Changes in operating assets and liabilities, net of assets acquired and liabilities assumed in purchase transactions:		
Accounts receivable	(53,277)	(32,485)
Other current assets	10,420	(15,628)
Other assets	751	(1,254)
Deferred taxes	1,746	2,750
Deferred rent	(678)	6,034
Deferred revenue	60	(641)
Accounts payable, accrued expenses and other	9,039	(1,602)
Net cash provided by operating activities	54,730	40,065
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of imaging facilities	(6,603)	(41,237)
Purchase of property and equipment	(52,110)	(38,736)
Proceeds from sale of equipment	63	648
Proceeds from sale of imaging facilities	–	35,500
Cash distribution from existing JV partner	994	443
Equity contributions in existing and purchase of interest in joint ventures	(1,374)	(265)
Net cash used in investing activities	(59,030)	(43,647)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on notes and leases payable	(9,219)	(6,645)
Proceeds from borrowings	476,503	74,401
Payments on term loan debt	(463,022)	(17,548)

Deferred financing costs	(945)	(531)
Net proceeds (payments) on revolving credit facility	1,600	(15,300)
Distributions paid to non-controlling interests	(492)	(613)
Proceeds from sale of non-controlling interests	–	5,005
Purchase of non-controlling interests	(350)	–
Proceeds from issuance of common stock upon exercise of options/warrants	150	594
Net cash provided by financing activities	4,225	39,363
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(13)	(34)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(88)	35,747
CASH AND CASH EQUIVALENTS, beginning of period	446	307
CASH AND CASH EQUIVALENTS, end of period	$358	$36,054
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the period for interest	$26,819	$26,543

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 $14.7 million and $15.7 million during the nine months ended September 30, 2016 and 2015, respectively, which were not paid for as of September 30, 2016 and 2015, respectively. The offsetting amounts due were recorded in our consolidated balance sheet under accounts payable, accrued expenses and other.

During the nine months ended September 30, 2016 we added capital lease debt of approximately $1.3 million.

We recognized a non-cash gain from the return of common stock of $5.0 million in June 2016. See Note 2, Gain from Return of Common Stock.

We transferred $2.7 million in fixed assets in June 2016 to our new joint venture, Glendale Advanced Imaging LLC. See Note 6, Investment in Joint Ventures.

In the third quarter of 2016, the Company recorded an increase to additional paid-in capital as a result of $992,000 which was earned as part of an earn out provision included in the Company’s 2015 sale of a non-controlling interest in Baltimore County Radiology, LLC. Such amount had not been received in cash as of September 30, 2016.

RADNET, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

NOTE 1 – NATURE OF BUSINESS AND BASIS OF PRESENTATION

We are a national provider of freestanding, fixed-site outpatient diagnostic imaging services. At September 30, 2016, we operated directly or indirectly through joint ventures with hospitals, 306 centers located in California, Delaware, Florida, Maryland, New Jersey, New York and Rhode Island. Our centers provide physicians with imaging capabilities to facilitate the diagnosis and treatment of diseases and disorders. 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. Our multi-modality strategy diversifies revenue streams, reduces exposure to reimbursement changes and provides patients and referring physicians one location for multiple procedures. Our operations comprise a single segment for financial reporting purposes.

The consolidated financial statements include the accounts of Radnet Management, Inc. (or “Radnet Management”) and Beverly Radiology Medical Group III, a professional partnership (“BRMG”). BRMG is a partnership of ProNet Imaging Medical Group, Inc., Breastlink Medical Group, Inc. and Beverly Radiology Medical Group, Inc. The 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”) 810-10-15-14, *Consolidation*, 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 are the primary beneficiary. We determine whether we are the primary beneficiary of a VIE through a qualitative analysis that identifies which variable interest holder has the controlling financial interest in the VIE. The variable interest holder who has both of the following has the controlling financial interest and is the primary beneficiary: (1) the power to direct the activities of the VIE that most significantly impact the VIE’s economic performance and (2) the obligation to absorb losses of, or the right to receive benefits from, the VIE that could potentially be significant to the VIE. In performing our analysis, we consider all relevant facts and circumstances, including: the design and activities of the VIE, the terms of the contracts the VIE has entered into, the nature of the VIE’s variable interests issued and how they were negotiated with or marketed to potential investors, and which parties participated significantly in the design or redesign of the entity.

Howard G. Berger, M.D., is our President and Chief Executive Officer, a member of our Board of Directors, and also owns, indirectly, 99% of the equity interests in BRMG. BRMG is responsible for all of the professional medical services at nearly all of our facilities located in California under a management agreement with us, and employs physicians or contracts with various other independent physicians and physician groups to provide the professional medical services at most of our 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.

We contract with nine medical groups which provide professional medical services at all of our facilities in Manhattan and Brooklyn, New York. These contracts are similar to our contract with BRMG. Six of these groups are owned by John V. Crues, III, M.D., RadNet's Medical Director, a member of our Board of Directors, and a 1% owner of BRMG. Dr. Berger owns a controlling interest in two of these medical groups which provide professional medical services at one of our Manhattan facilities.

RadNet provides non-medical, technical and administrative services to BRMG and the nine medical groups mentioned above ("NY Groups") for which it receives a management fee, pursuant to the related management agreements. Through the management agreements we have exclusive authority over all non-medical decision making related to the ongoing business operations of BRMG and the NY Groups and we determine the annual budget of BRMG and the NY Groups. BRMG and the NY Groups both have insignificant operating assets and liabilities, and de minimis equity. Through management agreements with us, substantially all cash flows of BRMG and the NY Groups after expenses including professional salaries, are transferred to us.

We have determined that BRMG and the NY Groups are VIEs, that we are the primary beneficiary, and consequently, we consolidate the revenue and expenses, assets and liabilities of each. BRMG and the NY Groups on a combined basis recognized $34.2 million and $29.4 million of revenue, net of management service fees to RadNet, for the three months ended September 30, 2016 and 2015, respectively, and $34.2 million and $29.4 million of operating expenses for the three months ended September 30, 2016 and 2015, respectively. RadNet, Inc. recognized in its condensed consolidated statement of operations $147.3 million and $106.7 million of total billed net service fee revenue relating to these VIEs for the three months ended September 30, 2016 and 2015, respectively, of which $113.1 million and $77.3 million was for management services provided to these VIEs relating primarily to the technical portion of total billed net service fee revenue for the three months ended September 30, 2016 and 2015, respectively.

For the nine months ended September 30, 2016 and 2015, respectively, the VIEs recognized $101.2 million and $83.1 million of revenue, net of management services fees to RadNet, respectively, and $101.2 million and $83.1 million of operating expenses. RadNet, Inc. recognized in its condensed consolidated statement of operations $422.2 million and $320.6 million of total billed net service fee revenue relating to these VIEs for the nine months ended September 30, 2016 and 2015, respectively, of which $321.1 million and $237.5 million was for management services provided to these VIEs relating primarily to the technical portion of total billed net service fee revenue for the nine months ended September 30, 2016 and 2015, respectively.

The cash flows of BRMG and the NY Groups are included in the accompanying consolidated statements of cash flows. All intercompany balances and transactions have been eliminated in consolidation. In our consolidated balance sheets at September 30, 2016 and December 31, 2015, we have included approximately $104.7 million and $89.8 million, respectively, of accounts receivable and approximately $8.7 million and $8.5 million of accounts payable and accrued liabilities related to BRMG and the NY Groups, respectively.

The creditors of BRMG and the NY Groups do not have recourse to our general credit and there are no other arrangements that could expose us to losses on behalf of BRMG and the NY Groups. However, RadNet may be required to provide financial support to cover any operating expenses in excess of operating revenues.

At all of our centers we have entered into long-term contracts with radiology groups in the area to provide physician services at those facilities. These radiology practices provide professional services, including supervision and interpretation of diagnostic imaging procedures, in our diagnostic imaging centers. The radiology practices maintain full control over the provision of professional services. 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 value of the services we provide. Except in New York City, the fee is based on the practice group’s professional revenue, including revenue derived outside of our diagnostic imaging centers. In New York City we are paid a fixed fee set in advance for our services. 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 paid to us. We have no financial controlling interest in the radiology practices; accordingly, we do not consolidate the financial statements of those practices in our consolidated financial statements. Because of the controlling relationship of Dr. Berger and Dr. Crues in the California and New York City practices we consolidate that income.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X and, therefore, do not include all information and footnotes necessary for conformity with U.S. generally accepted accounting principles for complete financial statements; however, in the opinion of our management, all adjustments consisting of normal recurring adjustments necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods ended September 30, 2016 and 2015 have been made. The results of operations for any interim period are not necessarily indicative of the results for a full year. These interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes thereto contained in our annual report on Form 10-K for the year ended December 31, 2015 filed on March 15, 2016, as amended.

NOTE 2 –SIGNIFICANT ACCOUNTING POLICIES

During the period covered in this report, there have been no material changes to the significant accounting policies we use and have explained, in our annual report on Form 10-K for the fiscal year ended December 31, 2015, as amended. The information below is intended only to supplement the disclosure in our annual report on Form 10-K for the fiscal year ended December 31, 2015, as amended.

Revenues

Service fee revenue, net of contractual allowances and discounts, consists of net patient fees received from various payors and patients themselves based mainly upon established contractual billing rates, less allowances for contractual adjustments and discounts. As it relates to BRMG and the NY Groups centers, this service fee revenue includes payments for both the professional medical interpretation revenue recognized by BRMG and the NY Groups as well as the payment for all other aspects related to our providing the imaging services, for which we earn management fees from BRMG and the NY Groups. As it relates to non-BRMG and NY Groups centers, namely the affiliated physician groups, this service fee revenue is earned through providing the use of our diagnostic imaging equipment and the provision of technical services as well as providing administrative services such as 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.

Service fee revenues are recorded during the period the services are provided based upon the estimated amounts due from the patients and third-party payors. Third-party payors include federal and state agencies (under the Medicare and Medicaid programs), managed care health plans, commercial insurance companies and employers. Estimates of contractual allowances are based on historical collection rates of payor reimbursement contract agreements.

Under capitation arrangements with various health plans, we earn a per-enrollee amount each month for making available diagnostic imaging services to all plan enrollees under the capitation arrangement. Revenue under capitation arrangements is recognized in the period which we are obligated to provide services to plan enrollees under contracts with various health plans.

Our service fee revenue, net of contractual allowances and discounts, the provision for bad debts, and revenue under capitation arrangements are summarized in the following table (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Commercial insurance	$130,036	$114,827	$386,383	$331,670
Medicare	48,740	40,840	140,089	120,039
Medicaid	7,554	6,117	21,461	17,582
Workers' compensation/personal injury	9,449	7,712	27,935	23,287
Other	12,651	23,408	37,163	53,759
Service fee revenue, net of contractual allowances and discounts	208,430	192,904	613,031	546,337
Provision for bad debts	(11,253)	(9,433)	(33,883)	(25,295)
Net service fee revenue	197,177	183,471	579,148	521,042
Revenue under capitation arrangements	27,466	24,895	80,448	72,880
Total net revenue	$224,643	$208,366	$659,596	$593,922

Provision for Bad Debts

We provide for an allowance against accounts receivable that could become uncollectible to reduce the carrying value of such receivables to their estimated net realizable value. We estimate this allowance based on the aging of our accounts receivable by the historical payment patterns of each type of payor, write-off trends, and other relevant factors. A significant portion of our provision for bad debt relates to co-payments and deductibles owed to us from patients with insurance. Although we attempt to collect deductibles and co-payments due from patients with insurance at the time of service, this attempt to collect at the time of service is not an assessment of the patient’s ability to pay nor are revenues recognized based on an assessment of the patient’s ability to pay. There are various factors that can

impact collection trends, such as changes in the economy, which in turn have an impact on the increased burden of co-payments and deductibles to be made by patients with insurance. These factors continuously change and can have an impact on collection trends and our estimation process.

Deferred Tax Assets

Income tax expense is computed using an asset and liability method and using expected annual effective tax rates. Under this method, deferred income tax assets and liabilities result from temporary differences in the financial reporting bases and the income tax reporting bases of assets and liabilities. The measurement of deferred tax assets is reduced, if necessary, by the amount of any tax benefit that, based on available evidence, is not expected to be realized. When it appears more likely than not that deferred taxes will not be realized, a valuation allowance is recorded to reduce the deferred tax asset to its estimated realizable value. 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.

Deferred Financing Costs

Costs of financing are deferred and amortized on a straight-line basis over the life of the associated loan, which approximates the effective interest rate method.

Presentation of Deferred Financing Costs

In the first quarter of 2016, we adopted Accounting Standards Update ("ASU") 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, which requires that deferred financing costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of such debt liability, consistent with debt discounts. In a subsequent Staff Announcement, codified as ASU 2015-15, the SEC announced that it would not object to the deferral and presentation of deferred financing costs relating to line-of-credit arrangements as an asset. We have applied the guidance retrospectively to all periods presented in this report. Such retrospective adoption had an insignificant impact to our December 31, 2015 consolidated balance sheet, and had no impact to our consolidated statements of operations, comprehensive loss, stockholders' equity, and cash flows. The table below summarizes the impacts on the Company's December 31, 2015 Consolidated Balance Sheet:

	Impact of new accounting pronouncement		
In thousands	As previously reported	Impact of adoption	As currently reported
Prepaid expenses and other current assets	$40,139	(1,153)	38,986
Deferred financing costs, net of current portion	3,696	(855)	2,841
Others	794,600	–	794,600
Total assets	$838,435	$ (2,008)	$836,427
Current portion of notes payable	23,076	(693)	22,383
Notes payable, net of current portion	601,229	(1,315)	599,914
Others	177,669	–	177,669
Total liabilities	801,974	(2,008)	799,966
Total equity	36,461	–	36,461
Total liabilities and equity	$838,435	$ (2,008)	$836,427

Meaningful Use Incentive

Under the American Recovery and Reinvestment Act of 2009, a program was enacted that provides financial incentives for providers that successfully implement and utilize electronic health record technology to improve patient care. Our software development team in Canada developed a Radiology Information System (RIS) software platform that has been awarded Meaningful Use certification. In order to receive such incentive payments providers must attest that they have demonstrated meaningful use of the certified RIS in each stage of the program. We account for this meaningful use incentive under the Gain Contingency Model outlined in ASC 450-30. Under this model, we record within non-operating income, meaningful use incentive only after Medicare accepts an attestation from the qualified eligible professional demonstrating meaningful use. We recorded approximately $2.8 million and $3.3 million during

the nine months ended September 30, 2016, and 2015, respectively, relating to this incentive.

Gain from Return of Common Stock

In the second quarter of 2016, we determined that certain pre-acquisition financial information of Diagnostic Imaging Group ("DIG") provided to us by the sellers contained errors. As a result of this, we negotiated and reached a settlement with the sellers of DIG in June 2016 for the return of 958,536 shares of common stock which had a fair value of $5.0 million on the date of return. Such return has been recognized as a gain from return of common stock in our statement of operations.

Liquidity and Capital Resources

We had cash and cash equivalents of $358,000 and accounts receivable of $183.2 million at September 30, 2016, compared to cash and cash equivalents of $446,000 and accounts receivable of $162.8 million at December 31, 2015. We had a working capital balance of $85.1 million and $72.4 million at September 30, 2016 and December 31, 2015, respectively. We had net income attributable to RadNet, Inc. common stockholders for the three months ended September 30, 2016 and 2015 of $1.6 million and $8.0 million, respectively. We had net income attributable to RadNet, Inc. common stockholders for the nine months ended September 30, 2016 and 2015 of $3.5 million and $6.8 million, respectively. We also had stockholders' equity of $36.7 million and $32.6 million at September 30, 2016 and December 31, 2015, 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 of new diagnostic imaging facilities, the acquisition of additional facilities and new diagnostic imaging equipment. 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.

Based on our current level of operations, we believe that cash flow from operations and available cash, together with available borrowings from our senior secured credit facilities, will be adequate to meet our liquidity needs. Our future liquidity requirements will be for working capital, capital expenditures, debt service and general corporate purposes. Our ability to meet our working capital and debt service requirements, however, is subject to future economic conditions and to financial, business and other factors, many of which are beyond our control. If we are not able to meet such requirements, we may be required to seek additional financing. There can be no assurance that we will be able to obtain financing from other sources on terms acceptable to us, if at all.

On a continuing basis, we also consider various transactions to increase shareholder value and enhance our business results, including acquisitions, divestitures and joint ventures. These types of transactions may result in future cash proceeds or payments but the general timing, size or success of any acquisition, divestiture or joint venture effort and the related potential capital commitments cannot be predicted. We expect to fund any future acquisitions primarily with cash flow from operations and borrowings, including borrowing from amounts available under our senior secured credit facilities or through new equity or debt issuances.

We and our subsidiaries or affiliates may from time to time, in our or their sole discretion, purchase, repay, redeem or retire any of our outstanding debt or equity securities in privately negotiated or open market transactions, by tender offer or otherwise.

At September 30, 2016, our credit facilities were comprised of two tranches of term loans and a revolving credit facility. On July 1, 2016 (the “Restatement Effective Date”), we entered into Amendment No. 3 to Credit and Guaranty Agreement (the “Restatement Amendment”) pursuant to which we amended and restated our then existing credit facilities on the terms set forth in the Amended and Restated First Lien Credit and Guaranty Agreement dated July 1, 2016 (as amended from time to time, the “First Lien Credit Agreement”). Pursuant to the First Lien Credit Agreement, we have issued $485 million of senior secured term loans (the “First Lien Term Loans”) and established a $117.5 million senior secured revolving credit facility (the “Revolving Credit Facility”). We have also entered into a Second Lien Credit and Guaranty Agreement dated March 25, 2014 (as amended from time to time, the “Second Lien Credit Agreement”) pursuant to which we issued $180 million of secured term loans (the “Second Lien Term Loans”).

Included in our condensed consolidated balance sheet at September 30, 2016 is $635.5 million of senior secured term loan debt (net of unamortized discounts of $17.5 million), broken down by loan agreement as follows (in thousands):

	As of September 30, 2016		
	Face Value	Discount	Total Carrying Value
First Lien Term Loans	$485,000	$(15,278)	$469,722

Second Lien Term Loans	$168,000	$(2,193)	$165,807
Total	$653,000	$(17,471)	$635,529

Our $117.5 million Revolving Credit Facility had a $1.6 million aggregate principal amount outstanding as of September 30, 2016.

As of September 30, 2016, we were in compliance with all covenants under our First Lien Credit Agreement and our Second Lien Credit Agreement.

Details on the First Lien Credit Agreement and the Second Lien Credit Agreement follow.

Restatement Amendment and the First Lien Credit Agreement

On July 1, 2016, we entered into the Restatement Amendment pursuant to which we amended and restated our then existing credit facilities on the terms set forth in the First Lien Credit Agreement. As of the Restatement Effective Date, our first lien credit facilities consisted of a Credit and Guaranty Agreement that we entered into on October 10, 2012 (the "Original First Lien Credit Agreement"), as subsequently amended by a first amendment dated April 3, 2013 (the "2013 Amendment"), a second amendment dated March 25, 2014 (the "2014 Amendment"), and a joinder agreement dated April 30, 2015 (the "2015 Joinder" and collectively with the Original First Lien Credit Agreement, the 2013 Amendment and the 2014 Amendment, the "Prior First Lien Credit Agreement"). The First Lien Credit Agreement increased the aggregate principal amount of First Lien Term Loans to $485.0 million and increased the Revolving Credit Facility to $117.5 million. Proceeds from the First Lien Credit Agreement were used to repay the previously outstanding first lien loans under the Prior First Lien Credit Agreement, make a $12.0 million principal payment of the Second Lien Term Loans, pay costs and expenses related to the First Lien Credit Agreement and provide approximately $10.0 million for general corporate purposes.

Interest. The interest rates payable on the First Lien Term Loans are (a) the Adjusted Eurodollar Rate (as defined in the First Lien Credit Agreement) plus 3.75% per annum or (b) the Base Rate (as defined in the First Lien Credit Agreement) plus 2.75% per annum. As applied to the First Lien Term Loans, the Adjusted Eurodollar Rate has a minimum floor of 1.0%. The six month Adjusted Eurodollar Rate (as defined in the First Lien Credit Agreement) at July 1, 2016, the day of the Restatement Amendment, was 0.92%. Prior to the Restatement Amendment, the interest rates payable on first lien term loans under the Prior First Lien Credit Agreement were the Adjusted Eurodollar Rate (as defined in the Prior First Lien Credit Agreement) plus 3.25% per annum or the Base Rate (as defined in the Prior First Lien Credit Agreement) plus 2.25% per annum.

Payments. The scheduled quarterly principal payments of the First Lien Term Loans is approximately $6.1 million, beginning in December 2016, with the balance due at maturity. Prior to the Restatement Amendment, the quarterly principal payments on the first lien term loans under the Prior First Lien Credit Agreement were approximately $6.2 million.

Maturity Date. The maturity date for the First Lien Term Loans shall be on the earliest to occur of (i) the seventh anniversary of the Restatement Effective Date, (ii) the date on which all First Lien Term Loans shall become due and payable in full under the First Lien Credit Agreement, whether by acceleration or otherwise, and (iii) September 25, 2020 if our indebtedness under the Second Lien Credit Agreement has not been repaid, refinanced or extended prior to such date.

Incremental Feature: Under the First Lien Credit Agreement, we can elect to request 1) an increase to the existing Revolving Credit Facility and/or 2) additional First Lien Term Loans, provided that the aggregate amount of such increases or additions does not exceed (A) an amount not in excess of $100.0 million minus any incremental loans requested under the similar provisions of the Second Lien Credit Agreement or (B) if the First Lien Leverage Ratio would not exceed 3.50:1.00 after giving effect to such incremental facilities, an uncapped amount, in each case subject to the conditions and limitations set forth in the First Lien Credit Agreement. Each lender approached to provide all or a portion of any incremental facility may elect or decline, in its sole discretion, to provide any incremental commitment or loan.

Revolving Credit Facility: The First Lien Credit Agreement provides for a $117.5 million Revolving Credit Facility. The termination date of the Revolving Credit Facility is the earliest to occur of: (i) July 1, 2021, (ii) the date the Revolving Credit Facility is permanently reduced to zero pursuant to section 2.13(b) of the First Lien Credit Agreement, which addresses voluntary commitment reductions, (iii) the date of the termination of the Revolving Credit Facility due to specific events of default pursuant to section 8.01 of the First Lien Credit Agreement, and (iv) September 25, 2020 if our indebtedness under the Second Lien Credit Agreement has not been repaid, refinanced or extended prior to such date. Amounts borrowed under the Revolving Credit Facility bear interest based on types of borrowings as follows: (i) unpaid principal on loans under the Revolving Credit Facility at the Adjusted Eurodollar Rate (as defined in the First Lien Credit Agreement) plus 3.75% per annum or the Base Rate (as defined in the First Lien Credit Agreement) plus 2.75% per annum, (ii) letter of credit fees at 3.75% per annum and fronting fees for

letters of credit at 0.25% per annum, in each case on the average aggregate daily maximum amount available to be drawn under all letters of credit issued under the First Lien Credit Agreement, and (iii) commitment fee of 0.5% per annum on the unused revolver balance.

Second Lien Credit Agreement:

On March 25, 2014, we entered into the Second Lien Credit Agreement to provide for, among other things, the borrowing of $180.0 million of Second Lien Term Loans. The proceeds from the Second Lien Term Loans were used to redeem our 10 3/8% senior unsecured notes, due 2018, to pay the expenses related to the transaction and for general corporate purposes. On July 1, 2016, in conjunction with the Restatement Amendment, a $12.0 million principal payment was made on the Second Lien Term Loans.

The Second Lien Credit Agreement provides for the following:

Interest. The interest rates payable on the Second Lien Term Loans are (a) the Adjusted Eurodollar Rate (as defined in the Second Lien Credit Agreement) plus 7.0% or (b) the Base Rate (as defined in the Second Lien Credit Agreement) plus 6.0%. The Adjusted Eurodollar Rate has a minimum floor of 1.0% on the Second Lien Term Loans. The three month Adjusted Eurodollar Rate at September 30, 2016 was 0.85%. The rate paid on the Second Lien Term Loan at September 30, 2016 was 8%.

Payments. There is no scheduled amortization of the principal of the Second Lien Term Loans. Unless otherwise prepaid as a result of the occurrence of certain mandatory prepayment events, all principal will be due and payable on the termination date described below.

Termination. The maturity date for the Second Lien Term Loans is the earlier to occur of (i) March 25, 2021, and (ii) the date on which the Second Lien Term Loans shall otherwise become due and payable in full under the Second Lien Credit Agreement, whether by voluntary prepayment per section 2.13(a) of the Second Lien Credit Agreement or events of default per section 8.01 of the Second Lien Credit Agreement as described below.

NOTE 3 – RECENT ACCOUNTING STANDARDS

In August 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-15, Statement of Cash Flows (Topic 230) – Classification of Certain Cash Receipts and Cash Payments. ASU 2016-15 clarifies how entities should classify certain cash receipts and cash payments in the statement of cash flows and amends certain disclosure requirements. The update is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after 15 December 2019. Early adoption is permitted, including adoption in an interim period. We are currently evaluating the impact of the GAAP update on our results of operations and cash flows.

In March 2016, the FASB issued ASU No. 2016-09 ("ASU 2016-09"), *Compensation—Stock Compensation*, (Topic 718): Improvements to Employee Share-Based Payment Accounting. ASU 2016-09 requires excess tax benefits and tax deficiencies, which arise due to differences between the measure of compensation expense and the amount deductible for tax purposes, to be recorded directly through the statement of operations as a component of income tax expense. Under current GAAP, these differences are generally recorded in additional paid-in capital and thus have no impact on income. The change in treatment of excess tax benefits and tax deficiencies will also impact the computation of diluted earnings per share, and the cash flows associated with those items will be classified as operating activities on the statement of cash flows. The ASU will permit certain elective changes associated with stock compensation accounting. For example, companies can elect to account for forfeitures of awards as they occur rather than projecting forfeitures in the accrual of compensation expense. In addition, the ASU increases the proportion of shares an employer is permitted (though not required) to withhold on behalf of an employee to satisfy the employee's income tax burden on a share-based award without causing the award to become subject to liability accounting. The amendments in this update are effective for fiscal years (and interim reporting periods within fiscal years) beginning after December 15, 2016, with early adoption permitted. We are currently evaluating the impact of the GAAP update on our results of operations and cash flows.

In February 2016, the FASB issued ASU No. 2016-02 ("ASU 2016-02"), *Leases,* (Topic 842): Amendments to the FASB Accounting Standards Codification. ASU 2016-02 amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes

to lessor accounting. The new standard requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. The amendments in this update are effective for fiscal years (and interim reporting periods within fiscal years) beginning after December 15, 2018. Early adoption of the amendments is permitted for all entities. We are currently evaluating the impact of the GAAP update on our results of operations and cash flows.

In November 2015, the FASB issued ASU No. 2015-17 ("ASU 2015-17"), *Income Taxes* (Topic 740): Balance Sheet Classification of Deferred Taxes. ASU 2015-17 changes the classification of deferred taxes to be a noncurrent asset or liability regardless of the classification of the related asset or liability for financial reporting. The update is effective for fiscal years beginning after December 15, 2016. Early application is permitted at the beginning of an interim or annual reporting period. We are currently evaluating the impact of the GAAP update on our results of operations and cash flows.

In September 2015, the FASB issued ASU No. 2015-16 ("ASU 2015-16"), *Business Combinations,* (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments. ASU 2015-16 eliminates the requirement to retrospectively apply adjustments made to provisional amounts recognized in a business combination. An entity will now recognize any adjustments in the reporting period in which the amounts are determined, calculated as if the accounting had been completed at the acquisition date. Disclosure is required for the portion of adjustments recorded in current-period earnings that would have been recorded in previous reporting periods had they been recognized as of the acquisition date. The update is effective for fiscal years (and interim reporting periods within fiscal years) beginning after December 15, 2015. Early adoption is permitted for financial statements that have not been previously issued. The update has been adopted and has had no material effect on our results of operations and cash flows.

In August 2014, the FASB issued ASU No. 2014-15 ("ASU 2014-15"), *Presentation of Financial Statements* (Subtopic 205-40): Going Concern. In connection with preparing financial statements for each annual and interim reporting period, an entity's management should evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued. If conditions or events raise substantial doubt about an entity's ability to continue as a going concern, but the substantial doubt is alleviated as a result of consideration of management's plans, the entity should disclose information. The update is effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. The GAAP update is expected to have minimal impact on our financial disclosures.

In May 2014, the FASB issued ASU No. 2014-09 ("ASU 2014-09"), *Revenue from Contracts with Customers*, (Topic 606). ASU 2014-09 requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects what it expects in exchange for the goods or services. It also requires more detailed disclosures to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The update was effective for fiscal years (and interim reporting periods within fiscal years) beginning after December 15, 2016, which has been extended to December 31, 2017. We are currently evaluating the impact of the GAAP update on our results of operations and cash flows.

NOTE 4 – EARNINGS PER SHARE

Earnings 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 September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income attributable to RadNet, Inc.'s common stockholders	$1,647	$7,987	$3,549	$6,828
BASIC NET INCOME PER SHARE ATTRIBUTABLE TO RADNET, INC.'S COMMON STOCKHOLDERS				
Weighted average number of common shares outstanding during the period	45,868,629	43,637,022	46,337,993	43,247,002
Basic net income per share attributable to RadNet, Inc.'s common stockholders	$0.04	$0.18	$0.08	$0.16
DILUTED NET INCOME PER SHARE ATTRIBUTABLE TO RADNET, INC.'S COMMON				

STOCKHOLDERS				
Weighted average number of common shares outstanding during the period	45,868,629	43,637,022	46,337,993	43,247,002
Add nonvested restricted stock subject only to service vesting	260,389	437,689	190,428	484,810
Add additional shares issuable upon exercise of stock options and warrants	204,952	677,225	220,415	972,511
Weighted average number of common shares used in calculating diluted net income per share	46,333,970	44,751,936	46,748,836	44,704,323
Diluted net income per share attributable to RadNet, Inc.'s common stockholders	$0.04	$0.18	$0.08	$0.15

NOTE 5 – ACQUISITIONS

In the third quarter of 2016, we recorded a measurement period adjustment associated with our acquisition of DIG on October 1, 2015. This adjustment stemmed from the final valuation report received from a third party valuation expert and amounted to a decrease to our intangible and fixed assets of approximately $121,000.

On July 1, 2016, we purchased for approximately $320,000 an additional 10.8% interest in the Park West joint venture, a concern which was part of the Lenox Hill 2012 acquisition, increasing our ownership percentage from 52.4% to 63.2%. The difference between the consideration paid and the fair value of the non-controlling interest purchased was recorded as an adjustment to additional paid-in capital.

In the second quarter of 2016, we recorded certain measurement period adjustments associated with our acquisition of DIG on October 1, 2015. These adjustments were the result of a preliminary valuation report received from a third party and resulted in an increase to fixed assets acquired by $1.2 million and the recognition of an unfavorable lease contract liability of $1.0 million. The recognition of these adjustments also resulted in related depreciation expense of $123,000 in the second quarter relating to the period from October 1, 2015 to December 31, 2015 and $123,000 related to the period from January 1, 2016 to March 31, 2016. Also, amounts previously owed to DIG of $5.0 million were reduced to $3.4 million on June 15, 2016 when we remitted a payment of $1.6 million to a payor on behalf of DIG.

On March 1, 2016 we completed our acquisition of certain assets of Advanced Radiological Imaging – Astoria P.C. consisting of two multi-modality imaging centers located in Astoria, NY for cash consideration of $5.0 million. The facility provides MRI, PET/CT, Ultrasound and X-ray services. We have made a preliminary fair value determination of the acquired assets and approximately $3.6 million of fixed assets, $47,000 of prepaid assets, $100,000 covenant not to compete, and $1.3 million of goodwill were recorded.

NOTE 6 – INVESTMENT IN JOINT VENTURES

We have twelve unconsolidated joint ventures with ownership interests ranging from 35% to 55%. 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, since RadNet does not have a controlling financial interest in such ventures.

Acquisition of new facilities

On August 15, 2016 our joint venture, Franklin Imaging, LLC, acquired a single multi-modality imaging center located in Rosedale, Maryland for cash consideration of $1.0 million and the assumption of capital lease debt of $241,000. Franklin Imaging, LLC made a fair value determination of the acquired assets and approximately $600,000 of fixed assets, $30,000 of other assets and goodwill of $648,000 was recorded in respect to the transaction.

Formation of new joint ventures

On April 1, 2016, Community Imaging Partners Inc., a wholly owned subsidiary of RadNet, entered into a joint venture with Mt. Airy Health Services, LLC, a partnership of Frederick Memorial Hospital and Carroll Hospital Center. On August 31, 2016, Community Imaging Partners Inc. contributed $200,000 for a 40% economic interest in the partnership and funded an additional $440,000 in relation to a capital call. Mt. Airy Health Services, LLC, contributed $300,000 for a 60% economic interest and an additional $660,000 in relation to the capital call.

On May 9, 2016, RadNet, through a newly formed subsidiary, Glendale Advanced Imaging LLC, entered into a joint venture with Dignity Health, a California nonprofit public benefit corporation. On June 1, 2016, RadNet contributed net assets of $2.2 million for a 55% economic interest and Dignity Health contributed net assets of $1.8 million for a 45% economic interest.

Joint Venture investment and financial information

The following table is a summary of our investment in joint ventures during the nine months ended September 30, 2016 (in thousands):

Balance as of December 31, 2015	$	33,584	
Equity in earnings in these joint ventures		8,129	
Distribution of earnings		(2,929	)
Equity contributions in existing joint ventures		3,084	
Balance as of September 30, 2016	$	41,868	

We earned management service fees from the centers underlying these joint ventures of approximately $2.9 million and $2.6 million for the three months ended September 30, 2016 and 2015, respectively, and $8.7 million and $6.4 million for the nine months ended September 30, 2016 and 2015 respectively. At the end of the period we eliminate from total fees recorded the uncollected portion of these fees that are associated with our ownership interests and offset this with an increase to our equity earnings.

The following table is a summary of key financial data for these joint ventures as of September 30, 2016 and for the nine months ended September 30, 2016 and 2015 (in thousands):

Balance Sheet Data:	September 30, 2016	December 31, 2015
Current assets	$ 33,452	$ 28,186
Noncurrent assets	96,766	91,660
Current liabilities		