RadNet, Inc.
Form 10-Q
November 10, 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 SEPTEMBER 30, 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)

DELAWARE	13-3326724
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NO.)

1510 COTNER AVENUE 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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act:

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 Rule 12b-2 of the Exchange Act) 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 November 6, 2008, was 35,786,474 shares.

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PART I - FINANCIAL INFORMATION
Item 1. Financial Statements

	SEPTE 2 --- (una
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	$
Accounts receivable, net	1
Refundable income taxes	
Prepaid expenses and other current assets	

Total current assets	1
PROPERTY AND EQUIPMENT, NET	2
OTHER ASSETS	
Goodwill	1
Other intangible assets	
Deferred financing costs, net	
Investment in joint ventures	
Deposits and other	

Total other assets	1

Total assets	$ 5
	===
LIABILITIES AND STOCKHOLDERS' DEFICIT	
CURRENT LIABILITIES	
Accounts payable and accrued expenses	$
Due to affiliates	
Notes payable	
Current portion of deferred rent	
Obligations under capital leases	

Total current liabilities	1

LONG-TERM LIABILITIES	
Line of credit	
Deferred rent, net of current portion	
Deferred taxes	
Notes payable, net of current portion	4
Obligations under capital lease, net of current portion	
Other non-current liabilities	

Total long-term liabilities	4

COMMITMENTS AND CONTINGENCIES	
MINORITY INTERESTS	
STOCKHOLDERS' DEFICIT	
Common stock - $.0001 par value, 200,000,000 shares authorized; 35,786,474 and 35,239,558 shares issued and outstanding at September 30, 2008 and December 31, 2007, respectively	
Paid-in-capital	1
Accumulated other comprehensive loss	
Accumulated deficit	(2
Total stockholders' deficit	(
Total liabilities and stockholders' deficit	$ 5

The accompanying notes are an integral part of these financial stateme

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

	THREE MONTHS ENDED September 30,		NIN S
	2007	2008	2008
NET REVENUE	$ 131,717	$ 110,209	$ 373,
OPERATING EXPENSES			
Operating expenses	99,552	83,546	286,
Depreciation and amortization	13,083	11,395	39,
Provision for bad debts	7,065	6,395	20,
Loss on disposal of equipment	1,525	180	1,
Severance costs	137	30	
Total operating expenses	121,362	101,546	348,
INCOME FROM OPERATIONS	10,355	8,663	25,
OTHER EXPENSES (INCOME)			
Interest expense	12,126	11,596	38,
Other income	(79)	(21)	(
Total other expense	12,047	11,575	38,
INCOME (LOSS) BEFORE INCOME TAXES, MINORITY INTERESTS AND EARNINGS FROM JOINT VENTURES	(1,692)	(2,912)	(12,
Provision for income taxes	(14)	(86)	(
Minority interest in income of subsidiaries	(27)	(198)	
Equity in earnings of joint ventures	1,871	1,103	5,
NET INCOME (LOSS)	$ 138	$ (2,093)	$ (7,
BASIC NET INCOME (LOSS) PER SHARE	$ 0.00	$ (0.06)	$ (0

DILUTED NET INCOME (LOSS) PER SHARE	$ 0.00	$ (0.06)	$ (0
WEIGHTED AVERAGE SHARES OUTSTANDING			
Basic	35,759,779	34,748,844	35,669,
Diluted	37,014,784	34,748,844	35,669,

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

RADNET, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
NINE MONTHS ENDED SEPTEMBER 30, 2008 (UNAUDITED)
(IN THOUSANDS EXCEPT SHARE DATA)

	Common Stock Shares	Common Stock Amount	Paid-in Capital	Assumulated Deficit
BALANCE - DECEMBER 31, 2007	35,239,558	$ 4	$ 149,631	$ (214,886)
Issuance of common stock upon exercise of options/warrants	546,916	--	383	--
Share-based compensation	--	--	1,887	--
Change in fair value of cash flow hedge	--	--	--	--
Net loss	--	--	--	(7,486)
Comprehensive loss				
BALANCE - SEPTEMBER 30, 2008	35,786,474	$ 4	$ 151,901	$ (222,372)

The accompanying notes are an integral part of these financi

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

	NINE MONTHS ENDED SEPTEMBER 30, 2008	2007
OPERATING ACTIVITIES		
Net loss	$ (7,486)	$ (6,434)
Adjustments to reconcile net loss to net cash provided by operating activities:		

Depreciation and amortization	39,623	32,352
Provision for bad debts	20,640	20,810
Minority interest in income of subsidiaries	76	483
Distributions to minority interests	(205)	(740)
Equity in earnings of joint ventures	(5,312)	(3,080)
Distributions from joint ventures	2,334	3,572
Deferred rent	3,071	638
Amortization of deferred financing costs	1,862	1,191
Loss on disposal of equipment	1,495	716
Share-based compensation	1,887	2,883
Changes in operating assets and liabilities, net of assets acquired and liabilities assumed in purchase transactions:		
Accounts receivable	(37,619)	(40,776)
Refundable income taxes	--	6,359
Other current assets	259	(1,478)
Other assets	(282)	1,815
Accounts payable and accrued expenses	1,793	2,389
Net cash provided by operating activities	22,136	20,700
INVESTING ACTIVITIES		
Purchase of imaging facilities	(28,649)	(15,665)
Purchase of property and equipment	(20,950)	(19,439)
Purchase of Radiologix, net of cash acquired	--	(370)
Purchase of equity interest in joint ventures	(728)	--
Proceeds from sale of equipment	166	1,300
Purchase of covenant not to compete contract	--	(250)
Payments collected on notes receivable	--	111
Net cash used in investing activities	(50,161)	(34,313)
FINANCING ACTIVITIES		
Principal payments on notes and leases payable	(13,976)	(7,159)
Proceeds from borrowings on credit facility	35,000	28,865
Proceeds from borrowings on notes and revolving credit facility	10,877	--
Deferred financing costs	(4,277)	(1,167)
Change in restricted cash		(6,909)
Payments on line of credit	--	(3,787)
Proceeds from issuance of common stock	383	549
Net cash provided by financing activities	28,007	10,392
NET DECREASE IN CASH	(18)	(3,221)
CASH, BEGINNING OF PERIOD	18	3,221
CASH, END OF PERIOD	$ --	$ --
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the period for interest	$ 36,529	$ 30,953

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 $21.4 million and $16.6 million, excluding capital leases assumed in acquisitions, during the nine months ended September 30, 2008 and 2007, respectively. We also acquired capital equipment for approximately $19.1 million during the nine months ended September 30, 2008 that we had not paid for as of September 30, 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 in New York. On September 3, 2008, we reincorporated in the state of Delaware. We operate a group of regional networks comprised of 165 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 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., RadNet Management Imaging Services, 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 18% of our outstanding common stock. Dr. Berger also owns, indirectly, 99% of the equity interests in BRMG. BRMG provides all of the professional medical services at the majority of our facilities located in California under a management agreement with us, and contracts with various other independent physicians and physician groups to provide the professional medical services at most of our other California facilities. We generally obtain professional medical services from BRMG in California, rather than provide such services directly or through subsidiaries, in order to comply with California's prohibition against the corporate practice of medicine. However, as a result of our close relationship with Dr. Berger and BRMG, we believe that we are able to better ensure that medical service is provided at our California facilities in a manner consistent with our needs and expectations and those of our referring physicians, patients and payors than if we obtained these services from unaffiliated physician groups. 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. (99%), Breastlink Medical Group, Inc. (100%) and Beverly Radiology Medical Group, Inc. (99%), each of which are 99% or 100% owned by Dr. Berger. RadNet provides non-medical, technical and administrative services to BRMG for which it receives a management fee.

At a portion of our centers in California and at all of the centers which are located outside of California, we have entered into long-term contracts with prominent radiology groups in the area to provide physician services at those facilities. These third party radiology practices provide professional services, including supervision and interpretation of diagnostic imaging procedures, in our diagnostic imaging centers. The radiology practices maintain full control over the provision of professional services. The contracted radiology practices generally have outstanding physician and practice credentials and reputations; strong competitive market positions; a broad sub-specialty mix of physicians; a history of growth and potential for continued growth. In these facilities we enter into long-term agreements with radiology practice groups (typically 40 years). Under these arrangements, in addition to obtaining technical fees for the use of our diagnostic imaging equipment and the provision of technical services, we provide management services and receive a fee based on the practice group's professional revenue, including revenue derived outside of our diagnostic imaging centers. We own the diagnostic imaging equipment and, therefore, receive 100% of the technical reimbursements associated with imaging procedures. The radiology practice groups retain the professional reimbursements associated with imaging procedures after deducting management service fees. Our management service fees are included in net revenue in the consolidated statement of operations and totaled $8.7 million and $7.5 million, for the three months ended September 30, 2008 and 2007, respectively, and $24.9 and $23.1 for the nine months ended September 30, 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 September 30, 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.

LIQUIDITY AND CAPITAL RESOURCES

We had a working capital balance of $9.1 million and $23.2 million at

September 30, 2008 and December 31, 2007, respectively. We had net income of $138,000 and a net loss of $7.5 million for the three and nine months ended September 30, 2008, respectively. We had net losses of $2.1 million and $6.4 million for the three and nine months ended September 30, 2007, respectively. We also had a stockholders' deficit of $74.2 million and $69.8 million at September 30, 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:

|X| Maximizing performance at our existing facilities;

|X| Focusing on profitable contracting;

|X| Expanding MRI, CT and PET applications;

|X| Optimizing operating efficiencies; and

|X| 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 a material drop in LIBOR 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

ACQUISITIONS

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

On July 23, 2008, we acquired the assets and business of NeuroSciences Imaging Center in Newark, Delaware for $4.5 million in cash. The center, which performs MRI, CT, Bone Density, X-ray, Fluoroscopy and other specialized procedures, is located in a highly specialized medical complex called the Neuroscience and Surgery Institute of Delaware. The acquisition complements our

recent purchase of the Papastavros Associates Imaging centers completed in March, 2008. We have made a preliminary purchase price allocation of the acquired assets and liabilities, and approximately $2.6 million of goodwill was recorded with respect to this transaction.

On June 18, 2008, we acquired the assets and business of Ellicott Open MRI for the assumption of approximately $181,000 of capital lease debt. We have made a preliminary purchase price allocation of the acquired assets and liabilities, and no goodwill was recorded with respect to this transaction.

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

On April 15, 2008, we acquired the net assets of five Los Angeles area imaging centers from InSight Health Corp. We completed the purchase of a sixth center in Van Nuys, CA from Insight Health Corp. on June 2, 2008. The total purchase price for the six centers was $8.5 million in cash. The centers provide a combination of imaging modalities, including MRI, CT, X-ray, Ultrasound and Mammography. We have made a preliminary purchase price allocation of the acquired assets and liabilities, and approximately $5.6 million of goodwill was recorded with respect to this transaction.

On April 1, 2008, we acquired the net assets and business of BreastLink Medical Group, Inc., a prominent Southern California Breast Medical Oncology business and a leading breast surgery business, for the assumption of approximately $4.0 million of accrued liabilities and capital lease obligations. We have made a preliminary purchase price allocation of the acquired assets and liabilities, and approximately $2.1 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 $3.4 million of goodwill, and $1.2 million for covenants not to compete, was recorded with respect to this transaction. In September 2008, we retired two MRI units from this acquisition and reclassified them to Other Current Assets on our consolidated balance sheet as of September 30, 2008, as assets held for sale. The amount reclassified was approximately $425,000 and is what we expect to receive upon completion of the sale of these assets during the fourth quarter of 2008.

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

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

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

In July 2007, we acquired the assets and business of Borg Imaging Group located in Rochester, NY for $11.6 million in cash plus the assumption of approximately $2.4 million of debt. Borg was the owner and operator of six imaging centers, five of which are multimodality, offering a combination of MRI, CT, X-ray, Mammography, Fluoroscopy and Ultrasound. After combining the Borg centers with RadNet's existing centers in Rochester, New York, RadNet has a total of 11 imaging centers in Rochester. The leased facilities associated with these centers includes a total monthly rental of approximately $71,000 per month. Approximately $9.0 million of goodwill was recorded with respect to this transaction. Also, $1.4 million was recorded for the fair value of covenant not to compete contracts.

In March 2007, we acquired the assets and business of Rockville Open MRI, located in Rockville, Maryland, for $540,000 in cash and the assumption of a capital lease of $1.1 million. The center provides MRI services. The center is

3,500 square feet with a monthly rental of approximately $8,400 per month. Approximately $365,000 of goodwill was recorded with respect to this transaction.

DIVESTITURES

In December 2007, we sold 24% of a 73% investment in one of our consolidated joint ventures for approximately $2.3 million reducing our ownership to 49%. As a result of this transaction, we no longer consolidate this joint venture. Accordingly, our consolidated balance sheet at December 31, 2007 includes this 49% interest as a component of our total investment in non-consolidated joint ventures where it is accounted for under the equity method. The amounts eliminated from our consolidated balance sheet as a result of the deconsolidation were not material. Since the deconsolidation occurred at the end of 2007, no significant amounts were eliminated from our statement of operations.

In October 2007 we divested a non-core center in Golden, Colorado for $325,000.

In June 2007 we divested a non-core center in Duluth, Minnesota to a local multi-center operator for $1.3 million.

NOTE 3 - INCOME (LOSS) PER SHARE

Income (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 SEPTEMBER 30,		NINE SE
	2008	2007	2008
	(unaudited)		(
Net Income (loss)	$ 138	$ (2,093)	$ (7,4
BASIC INCOME (LOSS) PER SHARE			
Weighted average number of common shares outstanding during the period	35,759,779	34,748,844	35,669,4
Basic income (loss) per share	$ 0.00	$ (0.06)	$ (0.
DILUTED INCOME (LOSS) PER SHARE			
Weighted average number of common shares outstanding during the period	35,759,779	34,748,844	35,669,4
Add additional shares issuable upon exercise of stock options and warrants	1,255,005	--	

Weighted average number of common shares used in calculating diluted earnings per share	37,014,784	34,748,844	35,669,4
Diluted income (loss) per share	$ 0.00	$ (0.06)	$ (0.

For the nine months ended September 30, 2008 and the three and nine months ended September 30, 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 $3.6 million to $18.6 million at September 30, 2008 compared to $15.0 million at December 31, 2007. This increase is primarily related to our purchase of an additional $728,000 of share holdings in joint ventures that were existing as of December 31, 2007 as well as our equity earnings of $5.3 million for the nine months ended September 30, 2008, offset by $2.4 of distributions received during the period.

We received management service fees from the centers underlying these joint ventures of approximately $1.7 million and $1.4 million for the three months ended September 30, 2008 and 2007, respectively, and $5.6 million and $3.6 million for the nine months ended September 30, 2008 and 2007, respectively.

The following table is a summary of key financial data for these joint ventures as of and for the nine months ended September 30, 2008 and 2007 (in thousands):

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	SEPTEMBER 30,	
Balance Sheet Data:	2008	20
Current assets	$ 23,029	$ 15
Noncurrent assets	24,015	11
Current liabilities	(4,560)	(2
Noncurrent liabilities	(8,699)	
Total net assets	$ 33,785	$ 24
Book value of Radnet joint venture interests	$ 15,212	$ 9
Cost in excess of book value of acquired joint venture interests	3,383	
Total value of Radnet joint venture interests	$ 18,595	$ 9

Total book value of other joint venture partner interests	$ 18,573	$ 14
	========	====
Net revenue	$ 60,196	$ 44
Net income	$ 13,386	$ 9

NOTE 5 - SHARE BASED COMPENSATION

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

As of September 30, 2008, 642,500, or approximately 39.2%, of all the outstanding stock options and warrants under our option plans are fully vested. During the nine months ended September 30, 2008, we granted options and warrants to acquire 545,000 shares of common stock.

We have issued warrants outside the plan under various types of arrangements to employees, in conjunction with debt financing and in exchange for outside services. All warrants issued to employees, directors and consultants after our February 2007 listing on the NASDAQ Global Market have been characterized as awards under the 2006 plan. 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 grant. The warrants expire from five to seven years from the date of grant. Vesting terms are determined by the board of directors or the compensation committee of the board of directors at the date of grant.

As of September 30, 2008, 2,741,237, or approximately 80.4%, of all the outstanding warrants outside the 2006 plan are fully vested. During the nine months ended September 30, 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 SEPTEMBER 30,	
	2008	2007

	IMPACT OF EQUITY-BASED COMPENSATION		IMPACT NOF EQUITY-BASED COMPENSATION	
	AS REPORTED	COMPENSATION	AS REPORTED	COMPENSATION
Income from operations	$ 1,355	$ (831)	$ 8,663	$ (281)
Income (loss) before income tax	$ 152	$ (831)	$(2,007)	$ (281)
Net income (loss)	$ 138	$ (831)	$(2,093)	$ (281)
Net basic income (loss) per share	$ 0.00	$ 0.02)	$ 0.06)	$ (0.01)
Net diluted income (loss) per share	$ 0.00	$ 0.02)	$ 0.06)	$ (0.01)

	FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008		2007	
	IMPACT OF EQUITY-BASED COMPENSATION		IMPACT NOF EQUITY-BASED COMPENSATION	
	AS REPORTED	COMPENSATION	AS REPORTED	COMPENSATION
Income from operations	$ 25,527	$ (1,887)	$ 23,224	$ (2,883)
Loss before income tax	$ (7,335)	$ (1,887)	$ (6,319)	$ (2,883)
Net loss	$ (7,486)	$ (1,887)	$ (6,434)	$ (2,883)
Net basic loss per share	$ (0.21)	$ (0.05)	$ (0.19)	$ (0.08)
Net diluted loss per share	$ (0.21)	$ (0.05)	$ (0.19)	$ (0.08)

The following summarizes all of our option and warrant activity for the nine months ended September 30, 2008:

OUTSTANDING OPTIONS AND WARRANTS UNDER THE 2006 PLAN	SHARES	WEIGHTED AVERAGE EXERCISE PRICE PER COMMON SHARE	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (IN YEARS)
Balance, December 31, 2007	1,165,250	$ 5.74	
Granted	545,000	7.76	
Exercised	(50,250)	1.44	
Canceled or expired	(19,000)	7.69	
Balance, September 30, 2008	1,641,000	$ 6.52	4.92
Exercisable at September 30, 2008	642,500	$ 5.69	1.58

NON-PLAN OUTSTANDING WARRANTS	SHARES	WEIGHTED AVERAGE EXERCISE PRICE PER COMMON SHARE	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (IN YEARS)
Balance, December 31, 2007	3,996,667	$ 1.85	
Granted	--	--	
Exercised	(496,666)	1.06	
Canceled or expired	(90,430)	1.42	

Balance, September 30, 2008	3,409,571	$ 1.96	3.13
Exercisable at September 30, 2008	2,741,237	$ 1.37	2.51

The aggregate intrinsic value in the table above represents the difference between our closing stock price on September 30, 2008 and the exercise price, multiplied by the number of in-the-money options and warrants on September 30, 2008. Total intrinsic value of options and warrants exercised during the nine months ended September 30, 2008 was approximately $3.9 million. As of September 30, 2008, total unrecognized share-based compensation expense related to non-vested employee awards was approximately $5.8 million, which is expected to be recognized over a weighted-average period of approximately 3.5 years.

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

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

	RISK-FREE INTEREST RATE	EXPECTED LIFE	EXPECTED VOLATILITY	EXPECTED DIVIDENDS
September 30, 2008	2.75%	3.7 years	74.68%	--
September 30, 2007	4.64%	4.1 years	94.65%	--

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 nine months ended September 30, 2008 and 2007 was $4.20 and $3.80, 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 September, 30, 2008 the fair value of these swaps of $4.3 million was determined using Level 2 inputs and is included in other non-current liabilities.

NOTE 7 - SUBSEQUENT EVENTS

At the close of business on Oct 31, 2008 we acquired the assets of Middletown Imaging located in Middletown, Delaware for $1,450,000 of which $1,239,602 consisted of the assumption of existing equipment debt with the balance paid in cash. The facility offers MRI, CT and ultrasound.

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

FORWARD-LOOKING STATEMENTS

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

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

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

OVERVIEW

The following discussion should be read along with the unaudited 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 165 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., RadNet Management Imaging Services, 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 18% of our outstanding common stock. Dr. Berger also owns, indirectly, 99% of the equity interests in BRMG. BRMG provides all of the professional medical services at the majority of our facilities located in California under a management agreement with us, and contracts with various other independent physicians and physician groups to provide the professional medical services at most of our other California facilities. We generally obtain professional medical services from BRMG in California, rather than provide such services directly or through subsidiaries, in order to comply with California's prohibition against the corporate practice of medicine. However, as a result of our close relationship with Dr. Berger and BRMG, we believe that we are able to better ensure that medical service is provided at our California facilities in a manner consistent with our needs and expectations and those of our referring physicians, patients and payors than if we obtained these services from unaffiliated physician groups. 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. (99%), Breastlink Medical Group, Inc. (100%) and Beverly Radiology Medical Group, Inc. (99%), each of which are 99% or 100% owned by Dr. Berger. RadNet provides non-medical, technical and administrative services to BRMG for which it receives a management fee.

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

In these facilities we enter into long-term agreements with radiology practice groups (typically 40 years). Under these arrangements, in addition to obtaining technical fees for the use of our diagnostic imaging equipment and the provision of technical services, we provide management services and receive a fee based on the practice group's professional revenue, including revenue derived outside of our diagnostic imaging centers. We own the diagnostic imaging 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 the portrayal of a company's financial condition and results of operations and require management's most difficult, subjective or complex judgment, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods.

As of the period covered in this report, there have been no material changes to the critical accounting estimates we use, and have explained, in our annual report on Form 10-K for the fiscal year ended December 31, 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 SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2007	2008	2008	2007
NET REVENUE	100.0%	100.0%	100.0%	100.0%

OPERATING EXPENSES				
Operating expenses	75.8%	76.6%	75.6%	75.9%
Depreciation and amortization	10.3%	10.6%	9.9%	10.0%
Provision for bad debts	5.8%	5.5%	5.4%	6.4%
Loss on disposal of equipment	0.2%	0.4%	1.2%	0.2%
Severance costs	0.0%	0.0%	0.1%	0.3%
Total operating expenses	92.1%	93.2%	92.1%	92.8%
INCOME FROM OPERATIONS	7.9%	6.8%	7.9%	7.2%
OTHER EXPENSES (INCOME)				
Interest expense	10.5%	10.2%	9.2%	10.0%
Other income	0.0%	0.0%	-0.1%	0.0%
Total other expense	10.5%	10.2%	9.1%	9.9%
INCOME (LOSS) BEFORE INCOME TAXES, MINORITY INTERESTS AND EARNINGS FROM JOINT VENTURES	-2.6%	-3.4%	-1.3%	-2.8%
Provision for income taxes	-0.1%	0.0%	0.0%	0.0%
Minority interest in income of subsidiaries	-0.2%	0.0%	0.0%	-0.1%
Equity in earnings of joint ventures	1.0%	1.4%	1.4%	1.0%
NET INCOME (LOSS)	-1.9%	-2.0%	0.1%	-2.0%

THREE MONTHS ENDED SEPTEMBER 30, 2008 COMPARED TO THE THREE MONTHS ENDED SEPTEMBER 30, 2007

NET REVENUE

Net revenue for the three months ended September 30, 2008 was $131.7 million compared to $110.2 million for the three months ended September 30, 2007, an increase of $21.5 million, or 19.5%.

Net revenue, including only those centers which were in operation throughout the third quarters of both 2008 and 2007 increased $6.0 million, or 5.6%. This 5.6% increase is mainly due to an increase in procedure volumes. This comparison excludes revenue contributions from centers that were acquired or divested subsequent to June 30, 2007. For the three months ended September 30, 2008, net revenue from centers that were acquired subsequent to June 30, 2007 and excluded from the above comparison (see Note 2) was $18.3 million. Contributing to the net revenue of the third quarter ended September 30, 2007 and excluded from the above comparison was $2.8 million from centers that were divested and were not operational in the third quarter ended September 30, 2008.

OPERATING EXPENSES

Operating expenses for the three months ended September 30, 2008 increased approximately $19.8 million, or 19.5%, from $101.6 million for the three months ended September 30, 2007 to $121.4 million for the three months ended September 30, 2008. The following table sets forth our operating expenses for the three months ended June 30, 2008 and 2007 (in thousands):

	THREE MONTHS ENDED SEPTEMBER 30, 2008	2007
Salaries and professional reading fees, excluding stock compensation	$ 54,217	$ 45,053
Share-based compensation	831	281
Building and equipment rental	10,968	10,927
General administrative expenses	33,536	27,285
Operating expenses	99,552	83,546
Depreciation and amortization	13,083	11,395
Provision for bad debts	7,065	6,395
Loss on disposal of equipment	1,525	180
Severance costs	137	30
Total operating expenses	$121,362	$101,546

SALARIES AND PROFESSIONAL READING FEES, EXCLUDING STOCK COMPENSATION AND SEVERANCE

Salaries and professional reading fees increased $9.2 million, or 20.3%, to $54.2 million for the three months ended September 30, 2008 compared to $45.0 million for the three months ended September 30, 2007.

Salaries and professional reading fees, including only those centers which were in operation throughout the third quarters of both 2008 and 2007, increased $2.8 million, or 6.3%. This 6.3% increase is primarily due to increased salaries and staffing to support the revenue growth of these existing imaging centers. This comparison excludes contributions from centers that were acquired or divested subsequent to June 30, 2007. For the three months ended September 30, 2008, salaries and professional reading fees from centers that were acquired subsequent to June 30, 2007 and excluded from the above comparison (see Note 2) was $6.8 million. Contributing to the salaries and professional reading fees of the third quarter ended September 30, 2007 and excluded from the above comparison was $460,000 from centers that were divested and were not operational in the third quarter ended September 30, 2008.

SHARE-BASED COMPENSATION

Share-based compensation increased $550,000, or 195.7%, to $831,000 for the three months ended September 30, 2008 compared to $281,000 for the three months ended September 30, 2007. The increase is primarily due to additional options granted during the second half of 2007 and the first half of 2008.

BUILDING AND EQUIPMENT RENTAL

Building and equipment rental expenses increased $41,000, or 0.4%, to $11.0 million for the three months ended September 30, 2008 compared to $10.9 million for the three months ended September 30, 2007.

Building and equipment rental expenses, including only those centers which were in operation throughout the third quarters of both 2008 and 2007, decreased $918,000, or 8.6%. This 8.6% decrease is primarily due to the conversion of certain equipment leases contracts from operating to capital leases. This comparison excludes contributions from centers that were acquired or divested subsequent to June 30, 2007. For the three months ended September 30, 2008, building and equipment rental expenses from centers that were acquired subsequent to June 30, 2007 and excluded from the above comparison (see Note 2) was $1.3 million. Contributing to the building and equipment rental expenses of the third quarter ended September 30, 2007 and excluded from the above comparison was $303,000 from centers that were divested and were not operational in the third quarter ended September 30, 2008.

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 $6.3 million, or 22.9%, for the three months ended September 30, 2008 compared to the previous period. The increase is in line with our increase in procedure volumes at both existing centers as well as newly acquired centers.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization increased $1.7 million, or 14.8%, to $13.1 million for the three months ended September 30, 2008 compared to the same period last year. The increase is primarily due to property and equipment additions for existing centers as well as newly acquired centers.

PROVISION FOR BAD DEBTS

Provision for bad debts increased $670,000, or 10.5%, to $7.1 million, or 5.3% of net revenue, for the three months ended September 30, 2008 compared to $6.4 million, or 5.8% of net revenue, for the three months ended September 30, 2007. The decrease in our provision for bad debts as a percentage of revenue is primarily due to an increase in collection performance and the completion of our billing system implementation which began in the first quarter of 2007.

LOSS ON DISPOSAL OF EQUIPMENT

Loss on disposal of equipment was $1.5 million and $180,000 for the three months ended September 30, 2008 and 2007, respectively. The loss on disposal in 2008 and 2007 primarily related to assets acquired in our November 2006 purchase of Radiologix.

SEVERANCE COSTS

During the three months ended September 30, 2008, we recorded severance costs of $137,000 compared to $30,000 recorded during the three months ended September 30, 2007. In each period, these costs were primarily associated with the integration of Radiologix and other acquired operations.

INTEREST EXPENSE

Interest expense for the three months ended September 30, 2008 increased approximately $530,000, or 4.6%, from the same period in 2007.

Included in interest expense for the three months ended September 30, 2008 and 2007 is amortization of deferred loan costs of $669,000 and $498,000, respectively as well as realized gains on our fair value hedges of $1.3 million for the three months ended September 30, 2008 and realized losses of $712,000 in 2007, respectively. The increase in interest expense exclusive of adjustments for our fair value hedges is primarily due to the $60 million increase in Term Loans B & C and increased borrowing on the line of credit.

INCOME TAX EXPENSE

For the three months ended September 30, 2008, we recorded $14,000 in income tax expense related to certain state tax obligations of Radiologix.

EQUITY IN EARNINGS FROM UNCONSOLIDATED JOINT VENTURES

For the three months ended September 30, 2008, we recognized equity in earnings from unconsolidated joint ventures of $1.9 million compared to $1.1 million for the three months ended September 30, 2007. This increase is due to our purchase of additional equity interests in certain existing joint ventures as well as the deconsolidation in the fourth quarter of 2007of a previously consolidated joint venture increasing the number of our consolidated joint ventures from eight to nine.

NINE MONTHS ENDED SEPTEMBER 30, 2008 COMPARED TO THE NINE MONTHS ENDED SEPTEMBER 30, 2007

NET REVENUE

Net revenue for the nine months ended September 30, 2008 was $373.9 million compared to $323.1 million for the nine months ended September 30, 2007, an increase of $50.8 million, or 15.7%.

Net revenue, including only those centers which were in operation throughout the first nine months of both 2008 and 2007, increased $15.8 million, or 4.9%. This 4.9% increase is mainly due to an increase in procedure volumes. This comparison excludes revenue contributions from centers that were acquired or divested subsequent to January 1, 2007. For the nine months ended September 30, 2008, net revenue from centers that were acquired subsequent to January 1, 2007 and excluded from the above comparison (see Note 2) was $48.3 million. For the nine months ended September 30, 2007, net revenue from centers that were acquired subsequent to January 1, 2007 and excluded from the above comparison (see Note 2) was $4.2 million. Also excluded was $9.1 million from centers that were divested subsequent to January 1, 2007.

OPERATING EXPENSES

Operating expenses for the nine months ended September 30, 2008 increased approximately $48.5 million, or 16.2%, from $299.8 million for the nine months ended September 30, 2007 to $348.3 million for the nine months ended September 30, 2008. The following table sets forth our operating expenses for the nine months ended September 30, 2008 and 2007 (in thousands):

	NINE MONTHS ENDED SEPTEMBER 30,	
	2008	2007

Salaries and professional reading fees, excluding stock compensation	$157,27	$131,214
Share-based compensation	1,887	2,883
Building and equipment rental	31,860	31,033
General administrative expenses	95,378	79,884
NASDAQ one-time listing fee	--	120
Operating expenses	286,404	245,134
Depreciation and amortization	39,623	32,352
Provision for bad debts	20,640	20,810
Loss on disposal of equipment	1,495	716
Severance costs	172	815
Total operating expenses	$348,334	$299,827

SALARIES AND PROFESSIONAL READING FEES, EXCLUDING STOCK COMPENSATION AND SEVERANCE

Salaries and professional reading fees increased $26.1 million, or 19.9%, to $157.3 million for the nine months ended September 30, 2008 compared to $131.2 million for the nine months ended September 30, 2007.

Salaries and professional reading fees, including only those centers which were in operation throughout the first nine months of both 2008 and 2007, increased $12.3 million, or 9.4%. This 9.4% increase is primarily due to increased salaries and staffing to support the revenue growth of these existing imaging centers. This comparison excludes contributions from centers that were acquired or divested subsequent to January 1, 2007. For the nine months ended September 30, 2008, salaries and professional reading fees from centers that were acquired subsequent to January 1, 2007 and excluded from the above comparison (see Note 2) was $17.5 million. For the nine months ended September 30, 2007, salaries and professional reading fees from centers that were acquired subsequent to January 1, 2007 and excluded from the above comparison (see Note 2) was $1.1 million. Also excluded was $2.6 million from centers that were divested subsequent to January 1, 2007.

SHARE-BASED COMPENSATION

Share-based compensation decreased $1.0 million, or 34.6%, to $1.9 million for the nine months ended September 30, 2008 compared to $2.9 million for the nine months ended September 30, 2007. Share-based compensation for the nine months ended September 30, 2007 included $1.7 million of additional stock based compensation expense as a result of the acceleration of vesting of certain warrants.

BUILDING AND EQUIPMENT RENTAL

Building and equipment rental expenses increased $827,000, or 2.7%, to $31.9 million for the nine months ended September 30, 2008 compared to $31.1 million for the nine months ended September 30, 2007.

Building and equipment rental expenses, including only those centers which were in operation throughout the first nine months of both 2008 and 2007, decreased $2.0 million, or 6.5%. This 6.5% decrease is primarily due to the conversion of certain equipment leases contracts from operating to capital leases. This comparison excludes contributions from centers that were acquired or divested subsequent to January 1, 2007. For the nine months ended September 30, 2008, building and equipment rental expenses from centers that were acquired subsequent to January 1, 2007 and excluded from the above comparison (see Note 2) was $4.4 million. For the nine months ended September 30, 2007, building and equipment rental expenses from centers that were acquired subsequent to January 1, 2007 and excluded from the above comparison (see Note 2) was $561,000. Also excluded was $987,000 from centers that were divested subsequent to January 1, 2007.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses include billing fees, medical supplies, office supplies, repairs and maintenance, insurance, business tax and license, outside services, utilities, marketing, travel and other expenses. Many of these expenses are variable in nature including medical supplies and billing fees, which increase with volume and repairs and maintenance under our GE service agreement as a percentage of net revenue. Overall, general and administrative expenses increased $15.5 million, or 19.4%, for the nine months ended September 30, 2008 compared to the previous period. The increase is in line with our increase in procedure volumes at both existing centers as well as newly acquired centers.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization increased $7.3 million, or 22.5%, to $39.6 million for the nine months ended September 30, 2008 when compared to the same period last year. The increase is primarily due to property and equipment additions for existing centers and newly acquired centers.

PROVISION FOR BAD DEBTS

Provision for bad debts decreased $170,000, or 0.8%, to $20.6 million, or 5.5% of net revenue, for the nine months ended September 30, 2008 compared to $20.8 million, or 6.4% of net revenue, for the nine months ended September 30, 2007. The decrease in our provision for bad debts as a percentage of revenue is primarily due to an increase in collection performance and the completion of our billing system implementation which began in the first quarter of 2007.

LOSS ON DISPOSAL OF EQUIPMENT

Loss on disposal of equipment was $1.5 million and $716,000 for the nine months ended September 30, 2008 and 2007, respectively. The loss on disposal in 2008 and 2007 primarily related to assets acquired in our November 2006 purchase of Radiologix.

SEVERANCE COSTS

During the nine months ended September 30, 2008, we recorded severance costs of $172,000 compared to $815,000 recorded during the nine months ended September 30, 2007. In each period, these costs were primarily associated with the integration of Radiologix and other acquired operations.

INTEREST EXPENSE

Interest expense for the nine months ended September 30, 2008 increased approximately $6.0 million, or 18.7%, from the same period in 2007. The increase is primarily due to the $60 million increase in Term Loans B & C and increased borrowing on the line of credit. Also included in interest expense for the nine months ended September 30, 2008 and 2007 is amortization of deferred loan costs of $1.5 million and $1.5 million, respectively, as well as realized gains of $1.0 million and realized losses of $155,000 on our fair value hedges for the nine months ended September 30, 2008 and 2007, respectively.

INCOME TAX EXPENSE

For the nine months ended September 30, 2008 and 2007, we recorded $151,000 and $115,000, respectively, for income tax expense related to certain state tax obligations of Radiologix.

EQUITY IN EARNINGS FROM UNCONSOLIDATED JOINT VENTURES

For the nine months ended September 30, 2008, we recognized equity in earnings from unconsolidated joint ventures of $5.3 million compared to $3.1 million for the nine months ended September 30, 2007. This increase is due to our purchase of additional equity interests in certain existing joint ventures as well as the deconsolidation in the fourth quarter of 2007of a previously consolidated joint venture increasing the number of our consolidated 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 provide financing for working capital needs post-acquisition. The facility consists of a revolving credit facility of up to $45 million, a $225 million first lien Term Loan and a $135 million second lien Term Loan. The revolving credit facility has a term of five years, the term loan has a term of six years and the second lien term loan has a term of six and one-half years. Interest is payable on all loans initially at an Index Rate plus the Applicable Index Margin, as defined. The Index Rate is initially a floating rate equal to the higher of the rate quoted from time to time by The Wall Street Journal as the "base rate on corporate loans posted by at least 75% of the nation's largest 30 banks" or the Federal Funds Rate plus 50 basis points. The Applicable Index Margin on each of the revolving credit facility and the term loan is 2% and on the second lien term loan is 6%. We may request that the interest rate instead be based on LIBOR plus the Applicable LIBOR Margin, which is 3.5% for the revolving credit facility and the term loan and 7.5% for the second lien term loan. The credit facility includes customary covenants for a facility of this type, including minimum fixed charge coverage ratio, maximum total leverage ratio, maximum senior leverage ratio, limitations on indebtedness, contingent obligations, liens, capital expenditures, lease obligations, mergers and acquisitions, asset sales, dividends and distributions, redemption or repurchase of equity interests, subordinated debt payments and modifications, loans and investments, transactions with affiliates, changes of control, and payment of consulting and management fees.

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

On February 22, 2008, we secured a second incremental $35 million ("Second Incremental Facility") of capacity as part of our existing credit facilities with GE Commercial Finance Healthcare Financial Services. The Second

Incremental Facility consists of an additional $35 million as part of our second lien term loan and the first lien term loan or revolving credit facility may be increased by up to an additional $40 million sometime in the future. As part of the transaction, partly due to the drop in LIBOR of over 2.00% since the credit facilities were established in November 2006, we increased the Applicable LIBOR Margin to 4.25% for the revolving credit facility and first lien term loan and to 9.0% for the second lien term loan. The additions to our existing credit facilities are intended to provide capital for near-term opportunities and future expansion.

As part of 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 a decrease to interest expense of approximately $1.0 million, and an increase to interest expense of $155,000 for the nine months ended September 30, 2008 and 2007, respectively. The corresponding liability of approximately $500,000 is included in the other non-current liabilities in the consolidated balance sheets at September 30, 2008. Of the derivatives that were designated as cash flow hedging instruments, we recorded $3.8 million to accumulated other comprehensive loss, and an offsetting liability of the same amount for the fair value of these hedging instruments at September 30, 2008.

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:

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

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

SOURCES AND USES OF CASH

Cash provided by operating activities was $22.1 million and $20.7 million for the nine months ended September 30, 2008 and 2007, respectively.

Cash used in investing activities was $50.2 million and $34.3 million for the nine months ended September 30, 2008 and 2007, respectively. For the nine months ended September 30, 2008, we purchased property and equipment for approximately $21.0 million and acquired the assets and businesses of additional imaging facilities for approximately $28.7 million (see Note 2). We also purchased additional equity interests in joint ventures totaling $728,000.

Cash provided by financing activities was $28.0 million and $10.4 million for the nine months ended September 30, 2008 and 2007, respectively. The cash provided by financing activities for the nine months ended September 30, 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 as well as additional borrowings on our line of credit.

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. Until February 22, 2008, the Applicable Index Margin on each the revolving credit facility and the term loan was 2% and on the second lien term loan was 6%. We may request that the interest rate instead be based on LIBOR plus the Applicable LIBOR Margin, which was 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 September 30, 2008, the end of the period covered by this quarterly report on Form 10-Q, due to the existence of material weaknesses in our financial statement close process and our entity level controls.

PART II - OTHER INFORMATION

ITEM 1 LEGAL PROCEEDINGS

At September 30, 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 Re DVI, Inc. Securities Litigation. UNITED STATES DISTRICT COURT, EASTERN DISTRICT OF PA, DOCKET NO. 2:03-CV-05336-LDD

This is a class action securities fraud case under Section 10(b) of the Securities Exchange Act and Rule 10b-5. It was brought by shareholders of DVI, Inc. ("DVI"), one of our former major lenders, against DVI officers and directors and a number of third party defendants, including us. The case arises from bankruptcy proceedings instituted by DVI in August 2003. We were named as a defendant in the Third Amended Complaint filed in July 2004.

The putative plaintiff class consists of those persons who purchased or otherwise acquired DVI, Inc. securities between August of 1999 and August of 2003. Plaintiffs allege that in 2000, we acquired from a third party one or more unprofitable imaging centers in order to help DVI conceal the fact that existing DVI loans on the centers were delinquent. Plaintiffs argue that we should have known that DVI was engaging in fraudulent practices to conceal losses, and our alleged "lack of due diligence" in investigating DVI's finances in the course of these acquisitions amounted to complicity in deceptive and misleading practices. We denied all allegations.

We and the plaintiff have executed a stipulation to dismiss us from the case in consideration of our agreement to waive our claim for costs against the plaintiff. The dismissal is subject to notice to the class and court approval.

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

None

ITEM 6 EXHIBITS

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

SIGNATURES

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

RADNET, INC.

(Registrant)

Date: November 10, 2008 By /s/ Howard G. Berger, M.D.

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

Date: November 10, 2008 By /s/ Mark D. Stolper

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

INDEX TO EXHIBITS

EXHIBIT NUMBER	DESCRIPTION
31.1	Certification of Howard G. Berger, M.D. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Mark D. Stolper pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002 of Howard G. Berger, M.D.
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002 of Mark D. Stolper