

RadNet, Inc.
Form 10-Q
May 12, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2014

OR

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

For the transition period from _____ to _____

Commission File Number 001-33307

RadNet, Inc.

(Exact name of registrant as specified in charter)

**Delaware
(State or other jurisdiction of**

**13-3326724
(I.R.S. Employer**

Incorporation or organization) Identification No.)

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

(310) 478-7808

(Registrant's telephone number, including area code)

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

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

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

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

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

The number of shares of the registrant's common stock outstanding on May 7, 2014, was 41,749,215 shares.

RADNET, INC.

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PART I – FINANCIAL INFORMATION**ITEM 1. Condensed Consolidated Financial Statements (unaudited)****RADNET, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****(IN THOUSANDS EXCEPT SHARE DATA)**

	March 31, 2014 (unaudited)	December 31, 2013
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 291	\$8,412
Accounts receivable, net	140,629	133,599
Current portion of deferred tax assets	16,691	13,321
Prepaid expenses and other current assets	25,255	21,012
Total current assets	182,866	176,344
PROPERTY AND EQUIPMENT, NET	226,209	218,547
OTHER ASSETS		
Goodwill	196,705	196,395
Other intangible assets	49,334	50,042
Deferred financing costs, net of current portion	7,886	8,735
Investment in joint ventures	28,939	28,949
Deferred tax assets, net of current portion	41,080	39,914
Deposits and other	4,225	3,650
Total assets	\$ 737,244	\$ 722,576
LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY		
CURRENT LIABILITIES		
Accounts payable, accrued expenses and other	\$ 90,459	\$ 106,316
Due to affiliates	1,548	2,655
Deferred revenue	1,305	1,344
Current portion of notes payable	19,617	3,103
Current portion of deferred rent	1,963	1,896
Current portion of obligations under capital leases	6,586	3,075
Total current liabilities	121,478	118,389

LONG-TERM LIABILITIES

Deferred rent, net of current portion	19,265	18,989
Line of credit	18,100	—
Notes payable, net of current portion	570,207	572,669
Obligations under capital lease, net of current portion	10,329	2,779
Other non-current liabilities	7,183	7,540
Total liabilities	746,562	720,366

STOCKHOLDERS' (DEFICIT) EQUITY

Common stock - \$.0001 par value, 200,000,000 shares authorized; 41,117,823, and 40,089,196 shares issued and outstanding at March 31, 2014 and December 31, 2013, respectively	4	4
Paid-in-capital	174,620	173,622
Accumulated other comprehensive loss	(68)	(50)
Accumulated deficit	(186,080)	(173,656)
Total RadNet, Inc.'s stockholders' deficit	(11,524)	(80)
Noncontrolling interests	2,206	2,290
Total stockholders' (deficit) equity	(9,318)	2,210
Total liabilities and stockholders' (deficit) equity	\$ 737,244	\$ 722,576

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 March 31,	
	2014	2013
NET REVENUE		
Service fee revenue, net of contractual allowances and discounts	\$ 158,763	\$ 163,741
Provision for bad debts	(6,893)	(6,822)
Net service fee revenue	151,870	156,919
Revenue under capitation arrangements	17,006	16,021
Total net revenue	168,876	172,940
OPERATING EXPENSES		
Cost of operations, excluding depreciation and amortization	145,030	149,562
Depreciation and amortization	15,571	14,760
Loss on sale and disposal of equipment	246	170
Severance costs	481	123
Total operating expenses	161,328	164,615
INCOME FROM OPERATIONS	7,548	8,325
OTHER INCOME AND EXPENSES		
Interest expense	11,772	12,147
Meaningful use incentive	(1,762)	-
Equity in earnings of joint ventures	(1,067)	(1,206)
Loss on early extinguishment of Senior Notes	15,456	-
Other expenses (income)	2	(2)
Total other income and expenses	24,401	10,939
LOSS BEFORE INCOME TAXES	(16,853)	(2,614)
Benefit from income taxes	4,478	1,248
NET LOSS	(12,375)	(1,366)
Net income (loss) attributable to noncontrolling interests	49	(24)
NET LOSS ATTRIBUTABLE TO RADNET, INC. COMMON STOCKHOLDERS	\$(12,424)	\$(1,342)

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BASIC AND DILUTED NET LOSS PER SHARE ATTRIBUTABLE TO RADNET, INC. COMMON STOCKHOLDERS	\$ (0.31)	\$ (0.03)
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WEIGHTED AVERAGE SHARES OUTSTANDING				
Basic and Diluted	40,010,080		39,314,447	

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

RADNET, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(IN THOUSANDS)

(unaudited)

	Three Months Ended March 31,	
	2014	2013
NET LOSS	\$(12,375)	\$(1,366)
Foreign currency translation adjustments	(18)	(59)
COMPREHENSIVE LOSS	(12,393)	(1,425)
Less comprehensive income (loss) attributable to non-controlling interests	49	(24)
COMPREHENSIVE LOSS ATTRIBUTABLE TO RADNET, INC. COMMON STOCKHOLDERS	\$(12,442)	\$(1,401)

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

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

	Common Stock Shares	Common Stock Amount	Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Radnet, Inc.'s Equity Deficit	Noncontrolling Interests	Total Equity (Deficit)
BALANCE - JANUARY 1, 2014	40,089,196	\$4	\$173,622	\$(173,656)	\$(50)	\$(80)	\$2,290	\$2,290
Issuance of common stock upon exercise of options/warrants	16,842	—	29	—	—	29	—	29
Stock-based compensation	—	—	969	—	—	969	—	969
Issuance of restricted stock	1,011,785	—	—	—	—	—	—	—
Distributions paid to noncontrolling interests	—	—	—	—	—	—	(133)	(133)
Change in cumulative foreign currency translation adjustment	—	—	—	—	(18)	(18)	—	(18)
Net (loss) income	—	—	—	(12,424)	—	(12,424)	49	(12,375)
BALANCE - MARCH 31, 2014	41,117,823	\$4	\$174,620	\$(186,080)	\$(68)	\$(11,524)	\$2,206	\$(9,932)

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

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

	Three Months Ended March 31,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$(12,375)	\$(1,366)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	15,571	14,760
Provision for bad debts	6,893	6,822
Equity in earnings of joint ventures	(1,067)	(1,206)
Distributions from joint ventures	1,866	1,921
Deferred rent amortization	343	433
Amortization of deferred financing costs	552	457
Write off of deferred loan costs due to refinance	665	-
Amortization of bond and term loan discounts	616	400
Loss on sale and disposal of equipment	246	170
Loss on early extinguishment of Senior Notes	15,456	-
Stock-based compensation	1,025	952
Changes in operating assets and liabilities, net of assets acquired and liabilities assumed in purchase transactions:		
Accounts receivable	(13,923)	(11,782)
Other current assets	(4,503)	(5,099)
Other assets	(575)	(105)
Deferred taxes	(4,536)	-
Deferred revenue	(39)	3
Accounts payable and accrued expenses	(11,075)	8,861
Net cash (used in) provided by operating activities	(4,860)	15,221
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of imaging facilities	(360)	(3,625)
Purchase of property and equipment	(17,047)	(12,926)