RadNet, Inc.
Form 10-Q
November 14, 2007

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, 2007

OR

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

COMMISSION FILE NUMBER 0-19019

RADNET, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN CHARTER)

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

1510 COTNER AVENUE 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, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer [ ]   Accelerated Filer [ ]   Non-Accelerated Filer [X]

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

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

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes X No

The number of shares of the registrant's common stock outstanding on November 10, 2007, was 34,789,558 shares (excluding treasury shares).

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PART 1 - FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 30, 2007 (Unaudited)	December 31 2006
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ --	$ 3,221
Restricted cash	6,909	--
Accounts receivable, net	92,662	70,794
Due from affiliates	--	1,427
Refundable income taxes	105	6,464
Other current assets	9,115	7,518
Total current assets	108,791	89,424
PROPERTY AND EQUIPMENT, NET	160,186	158,542
OTHER ASSETS		
Goodwill	83,476	61,607
Other intangible assets, net	58,961	60,484
Deferred financing cost`, net	9,160	9,422
Investment in joint ventures	9,633	10,125
Trade name and other	3,758	4,751
Total other assets	164,988	146,389
Total assets	$ 433,965	$ 394,355
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Accounts payable	$ 13,610	$ 23,038
Accrued expenses	41,295	26,854
Notes payable	3,066	2,969
Current portion of deferred rent	331	559
Due to affiliates	323	--
Obligations under capital leases	9,361	4,626
Total current liabilities	67,986	58,046
LONG-TERM LIABILITIES		
Line of credit	--	22
Notes payable, net of current portion	382,230	360,083
Obligations under capital lease, net of current portio	23,109	11,305
Deferred rent, net of current portion	5,248	991
Other non-current liabilities	8,464	9,650
Total long-term liabilities	419,051	382,051
COMMITMENTS AND CONTINGENCIES		
MINORITY INTERESTS	997	1,254
STOCKHOLDERS' DEFICIT		

Preferred stock - $.0001 par value, 30,000,000 shares authorized, none issued	--	--
Common stock - $.0001 par value, 200,000,000 shares authorized; 34,789,558 and 34,973,780 shares issued at September 30, 2007 and December 31, 2006, respectively; 34,789,558 and 34,061,281 shares outstanding at September 30, 2007 and December 31, 2006, respectively	4	3
Paid-in-capital	148,793	146,056
Accumulated other comprehensive loss	(1,819)	(73
Accumulated deficit	(201,047)	(192,287
	(54,069)	(46,301
Less: Treasury stock - 912,500 shares at cost	--	(695
Total stockholders' deficit	(54,069)	(46,996
Total liabilities and stockholders' deficit	$ 433,965	$ 394,355

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

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

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS SEPTEMBER
	2007	2006	2007
NET REVENUE	$ 110,209	$ 40,038	$ 323,051
OPERATING EXPENSES			
Operating expenses	83,503	30,323	244,405
Depreciation and amortization	11,405	4,131	32,495
Provision for bad debts	6,395	1,697	20,810
Loss on sale of equipment	(4)	305	--
Severance costs	30	--	815
Total operating expenses	101,329	36,456	298,525
INCOME FROM OPERATIONS	8,880	3,582	24,526
OTHER EXPENSES (INCOME)			
Interest expense	11,675	6,135	32,449
Loss on debt extinguishment, net	--	(21)	--
Other expense (income)	(21)	28	(72)
Total other expense	11,654	6,142	32,377

LOSS BEFORE INCOME TAXES, MINORITY INTEREST AND EARNINGS FROM JOINT VENTURES	(2,774)	(2,560)	(7,851)
Provision for income taxes	(86)	--	(115)
Minority interest in income of subsidiaries	(198)	--	(483)
Earnings from joint ventures	1,103	83	3,080
NET LOSS	$ (1,955)	$ (2,477)	$ (5,369)
BASIC AND DILUTED NET LOSS PER SHARE	$ (0.06)	$ (0.12)	$ (0.16)
WEIGHTED AVERAGE SHARES OUTSTANDING:			
Basic and diluted	34,749	21,238	34,567

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

RADNET, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIT
NINE MONTHS ENDED SEPTEMBER 30, 2007
(IN THOUSANDS EXCEPT PER SHARE DATA)

	Common Stock $.0001 par value, 200,000,000 shares authorized		
	Shares	Amount	Paid-in Capital
BALANCE - DECEMBER 31, 2006	34,973,780	$ 3	$ 146,056
Cumulative effect adjustment pursuant to adoption of SAB No. 108	--	--	--
Issuance of common stock upon exercise of stock options	728,278	1	549
Retirement of treasury shares	(912,500)	--	(695)
Share-based payments	--	2,883	--
Change in fair value of	--	--	
cash flow hedging	--	--	--
Net loss	--	--	--
BALANCE - SEPTEMBER 30, 2007 (UNAUDITED)	34,789,558	$ 4	$ 148,793

[table continued]

Accumulated Deficit	Accumulated Other Comprehensive Income (loss)	Total Stockholders' Deficit

BALANCE - DECEMBER 31, 2006	$ (192,287)	$ (73)	$ (46,996)
Cumulative effect adjustment pursuant			--
to adoption of SAB No. 108	(3,391)	--	(3,391)
Issuance of common stock			
upon exercise of stock options	--	--	550
Retirement of treasury shares	--	--	--
Share-based payments	--	2,883	
Change in fair value of			
cash flow hedging	--	(1,746)	(1,746)
Net loss	(5,369)	--	(5,369)
BALANCE - SEPTEMBER 30, 2007 (UNAUDITED)	$ (201,047)	$ (1,819)	$ (54,069)

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

RADNET, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(IN THOUSANDS)

	NINE MONTHS ENDED SEPTEMBER 30, 2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (5,369)	$ (5,988)
Adjustments to reconcile net loss to net cash flows provided by operating activities:		
Depreciation and amortization	32,495	12,186
Provision for bad debts and allowance adjustments	20,810	5,022
Minority interests in income of subsidiaries	483	--
Distributions to minority interests	(740)	--
Equity in earnings of joint ventures	(3,080)	(83)
Distributions from joint ventures	3,572	--
Deferred rent	638	--
Amortization of deferred financing cost	1,428	--
Net loss on disposal of assets	--	373
Loss on extinguishment of debt	--	2,097
Employee stock compensation	2,883	392
Deferred revenue from sale of building	--	(60)
Changes in operating assets and liabilities, net of assets acquired and liabilities assumed in purchase transactions:		
Accounts receivable	(40,776)	(8,897)
Refundable income taxes	6,359	--
Other current assets	(1,478)	(1,035)
Other assets	1,815	(314)
Accounts payable and accrued expenses	1,660	4,047

Net cash provided by operating activities	20,700	7,740
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of imaging facilities	(15,665)	(3,388)
Purchase of property and equipment	(19,439)	(7,488)
Purchase of Radiologix	(370)	--
Proceeds from sale of imaging facility	1,300	--
Purchase of covenant not to compete contract	(250)	--
Payments collected on notes receivable	111	--
Net cash used in investing activities	(34,313)	(10,876)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on notes and leases payable	(7,159)	(3,429)
Repayment of debt upon extinguishments	--	(141,243)
Proceeds from borrowings upon refinancing	--	146,468
Debt issue costs	(1,167)	(5,608)
Change in restricted cash	(6,909)	--
Proceeds from borrowings on notes payable & revolving credit	28,865	5,495
Payments on line of credit	(3,787)	--
Proceeds from issuance of common stock	549	1,453
Net cash generated from financing activities	10,392	3,136
NET DECREASE IN CASH	(3,221)	--
CASH, BEGINNING OF PERIOD	3,221	2
CASH, END OF PERIOD	$ --	$ 2
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the period for interest	$ 30,953	$ 11,331

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

RADNET, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) (CONTINUED)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006

SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES

We entered into capital leases for approximately $16.6 million and $3.6 million for the nine months ended September 30, 2007 and 2006, respectively.

RADNET, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - NATURE OF BUSINESS AND BASIS OF PRESENTATION

RadNet, Inc. or RadNet (formerly Primedex Health Systems, Inc.), was incorporated on October 21, 1985. Since our acquisition of Radiologix on November 15, 2006, we have operated a group of regional networks comprised of 143 diagnostic imaging facilities located in seven states with operations primarily in California, the Mid-Atlantic, the Treasure Coast area of Florida, Kansas and the Finger Lakes (Rochester) and Hudson Valley areas of New York, providing diagnostic imaging services including magnetic resonance imaging (MRI), computed tomography (CT), positron emission tomography (PET), nuclear medicine, mammography, ultrasound, diagnostic radiology, or X-ray, and fluoroscopy. The Company's operations comprise a single segment for financial reporting purposes.

The results of operations of Radiologix and its wholly-owned subsidiaries have been included in the consolidated financial statements from the date of acquisition. 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., 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 17% 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 52 of our facilities located in California under a management agreement with us, and contracts with various other independent physicians and physician groups to provide the professional medical services at most of our other California facilities. We obtain professional medical services from BRMG in California, rather than provide such services directly or through subsidiaries, in order to comply with California's prohibition against the corporate practice of medicine. However, as a result of our close relationship with Dr. Berger and BRMG, we believe that we are able to better ensure that medical service is provided at our California facilities in a manner consistent with our needs and expectations and those of our referring physicians, patients and payors than if we obtained these services from unaffiliated physician groups. At eleven former Radiologix centers in California and at all of the former Radiologix centers which are located outside of California, we have entered into long-term contracts with prominent radiology groups in the area to provide physician services at those facilities. The operations of BRMG are consolidated with us as a result of the contractual and operational relationship among BRMG, Dr. Berger, and us. We are considered to have a controlling financial interest in BRMG pursuant to the guidance in Emerging Issues Task Force Issue 97-2 (EITF 97-2). BRMG is a partnership of Pronet Imaging Medical Group, Inc. and Beverly Radiology Medical Group, both of which are 99%-owned by Dr. Berger. RadNet provides non-medical, technical and administrative services to BRMG for which it receives a management fee.

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

Radiologix enters 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, it provides management services and receives a fee based on the practice group's professional revenue, including revenue derived outside of its diagnostic imaging centers. Radiologix owns the diagnostic imaging assets and, therefore, receives 100% of the technical reimbursements associated with imaging procedures. Radiologix has 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 accounting principles generally accepted in the United States for 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, 2007 and 2006 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 October 31, 2006 and our transition report on Form 10-K/T for the two months ended December 31, 2006.

Certain prior period amounts have been reclassified to conform to the current period presentation. These changes have no effect on net income.

LIQUIDITY AND CAPITAL RESOURCES

We had a working capital balance of $40.8 million at September 30, 2007 compared to $31.4 million at December 31, 2006, and a net loss of $2.0 million and $5.4 million during the three and nine months ended September 30, 2007, respectively. We also had a stockholders' deficit of $54.1 million at September 30, 2007 compared to $47.0 million at December 31, 2006.

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.

NOTE 2 - BUSINESS ACQUISITION

On November 15, 2006, we completed our acquisition of Radiologix, Inc. as a stock purchase. Under the terms of the merger agreement, Radiologix shareholders received aggregate consideration of 11,310,950 shares (or 22,621,900 shares before the one-for-two reverse stock split effected in late November 2006) of our common stock and $42,950,000 in cash.

The total purchase price and the allocation of the estimated purchase price discussed below are preliminary and have not been finalized. The preliminary estimated total purchase price of the merger is as follows:

	(IN THOUSANDS)
Value of stock given by RadNet to Radiologix*	$39,400
Cash	42,950
Estimated transaction fees and expenses**	15,208
Total purchase price	$97,558

(*) Calculated as 11,310,950 shares multiplied by $3.48 (average closing price of $1.74 from June 28, 2006 to July 13, 2006, adjusted for the one-for-two reverse stock split).

(**) Includes $8,274,000 in assumed liabilities of Radiologix, including $3,210,000 in merger and acquisition fees and $5,064,000 in Radiologix bond prepayment penalties.

Under the purchase method of accounting, the total estimated purchase price as shown above and based on our consultation with an external valuation expert is allocated to Radiologix's net tangible and intangible assets based on their estimated fair values as of the date of acquisition. The following table summarizes the preliminary purchase price allocation at the date of acquisition.

	(IN THOUSANDS)
Current assets	$ 114,764
Property and equipment, net	78,173
Identifiable intangible assets	61,000
Goodwill	47,956
Investments in joint ventures	9,482
Other assets	974
Current liabilities	(25,191)
Accrued restructuring charges	(314)

Contracts	(8,994)
Assumption of debt	(177,358)
Long-term liabilities	(1,725)
Minority interests in consolidated subsidiaries	(1,209)
Total purchase price	$ 97,558

CASH, MARKETABLE SECURITIES, INVESTMENTS AND OTHER ASSETS: We valued cash, marketable securities, investments and other assets at their respective carrying amounts as we believe that these amounts approximated their current fair values.

IDENTIFIABLE INTANGIBLE ASSETS: Identifiable intangible assets acquired include management service agreements and covenants not to compete. Management service agreements represent the underlying relationships and agreements with certain professional radiology groups. Covenants not to compete are contracts entered into with certain former members of management of Radiologix on the date of acquisition.

Identifiable intangible assets consist of:

(IN THOUSANDS)	ESTIMATED FAIR VALUE	ESTIMATED AMORTIZATION PERIOD	ANNUAL AMORTIZATION
Management service agreements	$57,880	25 years	$ 2,315
Covenants not to compete	3,120	1 to 2 years	1,810

Estimated useful lives for the intangible assets were based on the average contract terms, which are greater than the amortization period that will be used for management contracts. Intangible assets are being amortized using the straight-line method, considering the pattern in which the economic benefits of the intangible assets are consumed.

GOODWILL: Approximately $47,956,000 has been allocated to goodwill. This is an increase of approximately $5.6 million from our estimate at June 30, 2007 based on a further refinement of our purchase price allocation. This amount may change when we finalize our estimate. The increase in goodwill includes a $4.9 million decrease to property and equipment and a $692,000 increase to accrued liabilities. Goodwill represents the excess of the purchase price over the fair value of the underlying net tangible and identifiable intangible assets. In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets" goodwill will not be amortized but instead will be tested for impairment at least annually. We perform this test annually on December 1. In the event that management determines that the value of goodwill has become impaired, we will incur an accounting charge for the amount of impairment during the fiscal quarter in which the determination is made, which would normally be the fourth quarter. Because this goodwill was established through a stock purchase, no amount is deductible for tax purposes.

OPERATING LEASES: We assumed certain operating leases for both equipment and facilities. All related historical deferred rent liabilities have been eliminated. The establishment of any assets or liabilities associated with the Company's assumption of these operating leases is contingent upon final analysis from our external valuation experts.

NOTE 3 - FACILITY ACQUISITIONS AND DIVESTITURES

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 September 2007, we acquired the assets and business of three facilities comprising of 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 $2.8 million 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 $11.7 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 $9.2 million of goodwill was recorded with respect to this transaction.

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.

Our allocation of the purchase price with respect to our 2007 acquisitions to the fair value of the assets acquired and liabilities assumed is preliminary and subject to change upon completion of our allocation analysis.

In June 2007 we divested a non-course center in Duluth, Minnesota to a local multi-center operator for $1.3 million. This was the only facility that we operated in Minnesota.

NOTE 4 - ADOPTION OF RECENT ACCOUNTING STANDARDS AND PRONOUNCEMENTS

In September 2006, the SEC issued Staff Accounting Bulletin No. 108 ("SAB No. 108"), "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements." SAB No. 108 specifies how the carryover or reversal of prior year unrecorded financial statement misstatements should be considered in quantifying a current year misstatement. SAB No. 108 requires an approach that considers the amount by which the current year Consolidated Statement of Operations is misstated ("rollover approach") and an approach that considers the cumulative amount by which the current year Consolidated Balance Sheet is misstated ("iron curtain approach").

Prior to the issuance of SAB No. 108, either the rollover or iron curtain approach was acceptable for assessing the materiality of financial statement misstatements. Prior to the Company's application of the guidance in

SAB No. 108, management used the rollover approach for quantifying financial statement misstatements.

Initial application of SAB No. 108 allows registrants to elect not to restate prior periods but to reflect the initial application in their annual financial statements covering the first fiscal year ending after November 15, 2006. The cumulative effect of the initial application should be reported in the carrying amounts of assets and liabilities as of the beginning of that fiscal year and the offsetting adjustment, net of tax, should be made to the opening balance of retained earnings for that year. We elected to record the effects of applying SAB No. 108 using the cumulative effect transition method. The misstatement that has been corrected is described below.

Subsequent to the completion of the financial statement close process for the three and six months ended June 30, 2007, we determined that certain lease rate escalation clauses had not been properly accounted for in accordance with generally accepted accounting principles for the fiscal years ended October 31, 2004, 2005 and 2006 as well as for the two months ended December 31, 2006 (our transition period) and for the quarter ended March 31, 2007. The Company had been recording rent expense based on the contractual terms of the lease agreements. We reviewed Statement of Financial Accounting Standards No. 13 (SFAS No. 13) and its related interpretations including Financial Accounting Standards Board Technical Bulletin 85-3 "Accounting for Operating Leases with Scheduled Rent Increases" (FTB 85-3), scheduled rent increases and rent holidays in an operating lease should be recognized by

the lessee on a straight-line basis over the lease term unless another systematic and rational allocation is more representative of the time pattern in which leased property is physically employed. FTB 85-3 specifically states that scheduled rent increases designed to reflect the anticipated effects of inflation is not a justification to support not straight lining the lease cost over the lease term. Based on our review, we have concluded that the straight-line method is required.

In accordance with the transition provisions of SAB No. 108, we recorded a $3.4 million cumulative effect adjustment to retained earnings and an offsetting amount to long-term deferred rent as of January 1, 2007. In addition, we recognized an additional $697,000 of facility rent expense for the six months ended June 30, 2007 related to the application of the straight-line methodology to certain leases with rent escalators.

Based on the nature of these adjustments and the totality of the circumstance surrounding these adjustments, we have concluded that these adjustments are immaterial to prior years' consolidated financial statements under our previous method of assessing materiality, and therefore, have elected, as permitted under the transition provisions of SAB No. 108, to reflect the effect of these adjustments in opening liabilities as of January 1, 2007, with the offsetting adjustment reflected as a cumulative effect adjustment to opening retained earnings as of January 1, 2007.

In July 2006, the FASB issued SFAS Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of SFAS Statement No. 109" ("FIN 48"), and effective January 1, 2007, we adopted FIN 48. FIN 48 applies to all "tax positions" accounted for under SFAS 109. FIN 48 refers to "tax positions" as positions taken in a previously filed tax return or positions expected to be taken in a future tax return which are reflected in measuring current or deferred income tax assets and liabilities reported in the financial statements. FIN 48 further clarifies a tax position to include, but not be limited to, the following:

- an allocation or a shift of income between taxing jurisdictions,
- the characterization of income or a decision to exclude reporting taxable income in a tax return, or
- a decision to classify a transaction, entity, or other position in a tax return as tax exempt.

FIN 48 clarifies that a tax benefit may be reflected in the financial statements only if it is "more likely than not" that a company will be able to sustain the tax return position, based on its technical merits. If a tax benefit meets this criterion, it should be measured and recognized based on the largest amount of benefit that is cumulatively greater than 50% likely to be realized. This is a change from current practice, whereby companies may recognize a tax benefit only if it is probable a tax position will be sustained.

FIN 48 also requires that we make qualitative and quantitative disclosures, including a discussion of reasonably possible changes that might occur in unrecognized tax benefits over the next 12 months; a description of open tax years by major jurisdictions and a roll-forward of all unrecognized tax benefits, presented as a reconciliation of the beginning and ending balances of the unrecognized tax benefits on an aggregated basis.

We are subject to tax audits in several tax jurisdictions within the U.S. and will remain subject to examination until the statute of limitations expires for each respective tax jurisdiction. Tax audits by their very nature are often complex and can require several years to complete. Information relating to our tax examinations by jurisdiction is as follows:

- Federal -- we are subject to U.S. federal tax examinations by tax authorities for the tax years ended 2003 to 2007
- State -- we are subject to state tax examinations by tax authorities for the tax years ended 2002 to 2007

The adoption of FIN 48 did not have a material impact on our financial statements or disclosures. As of January 1, 2007 and September 30, 2007 we did not recognize any assets or liabilities for unrecognized tax benefits relative to uncertain tax positions. We do not currently anticipate that any significant increase or decrease to the gross unrecognized tax benefits will be recorded during the next 12 months. Any interest or penalties resulting from examinations will continue to be recognized as a component of the income tax provision; however, since there are no unrecognized tax benefits as a result of tax positions taken, there is no accrued interest and penalties.

Additionally, the future utilization of the Company's net operating loss carryforwards to offset future taxable income may be subject to a substantial annual limitation as a result of ownership changes that may have occurred previously or that could occur in the future.

NOTE 5 - COMPREHENSIVE LOSS

The following table summarizes total comprehensive loss for the applicable periods (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Net loss	$(1,955)	$(2,477)	$(5,369)	$(5,988)
Change in fair value of cash flow hedging	(2,864)	--	(1,746)	--
Total comprehensive loss	$(4,819)	$(2,477)	$(7,115)	$(5,988)

NOTE 6 - EARNINGS PER SHARE

Earnings per share is based upon the weighted average number of shares of common stock and common stock equivalents outstanding, net of common stock held in treasury, and includes the effect of the one-for-two reverse stock split effective November 28, 2006, as follows (in thousands):

	THREE MONTHS ENDED SEPTEMBER 30,	
	2007	2006
Net loss	$(1,955)	$(2,47
BASIC LOSS PER SHARE		
Weighted average number of common shares outstanding during the period	34,749	21,23
Basic loss per share	$ (0.06)	$ (0.1
DILUTED LOSS PER SHARE		
Weighted average number of common shares outstanding during the period	34,749	21,23
Add additional shares issuable upon exercise of stock options and warrants calculated using the treasury stock method	--	--
Weighted average number of common shares used in calculating diluted earnings per share	34,749	21,23
Diluted loss per share	$ (0.06)	$ (0.1

For the three and nine months ended September 30, 2007 and 2006, we excluded all options and warrants in the calculation of diluted earnings per share because their effect is antidilutive.

NOTE 7 - INVESTMENT IN JOINT VENTURES

We have eight 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. Total assets at September 30, 2007 include notes receivable from certain unconsolidated joint ventures aggregated $376,000. Interest income related to these notes receivable was approximately $14,000 and $51,000 for the three and nine months ended September 30, 2007, respectively. We also received management service fees of $1.4 million and $3.6 million for the three and nine months ended September 30, 2007, respectively, in connection with operating the centers underlying these joint ventures.

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

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Balance Sheet Data:	
Current assets	$15,531
Noncurrent assets	11,345
Current liabilities	2,018
Noncurrent liabilities	558
Net assets:	
Radnet joint venture interests	9,633
Other joint venture partners interests	14,667
Income Statement Data:	
Net revenue	44,080
Net Income	9,669

NOTE 8 - STOCK BASED COMPENSATION

We have three long-term incentive stock option plans. The 1992 plan has not issued options since the adoption of the 2000 plan and the 2000 plan has not issued options since the adoption of the 2006 plan. We reserved 1,000,000 shares of common stock for grants of options under our 2006 plan. We have issued non-qualified stock options from time to time in connection with acquisitions and for other purposes and have also issued stock under the plans. Employee stock options generally vest over three to five years and expire five to ten years from date of grant.

As of September 30, 2007, 202,750, or approximately 68%, of all outstanding stock options are fully vested. Options to acquire 95,000 shares of common stock were granted during the three and nine months ended September 30, 2007.

We have issued warrants under various types of arrangements to employees, as well as to non-employees in conjunction with debt financing and in exchange for outside services. All warrants are issued with an exercise price equal to the fair market value of the underlying common stock on the date of issuance. The warrants expire from five to seven years from the date of grant. Warrants issued to employees can vest immediately or up to seven years. Vesting terms are determined by the board of directors at the date of issuance. We issued no warrants during the three months ended September 30, 2007 and 1,450,000 warrants during the nine months ended September 30, 2007. As of September 30, 2007, warrants to acquire 3,753,667 shares, or approximately 73%, of all the outstanding warrants are fully vested.

As of November 1, 2005, we adopted SFAS No. 123(R), "Share-Based Payment," applying the modified prospective method. This Statement requires all equity-based payments to employees, including grants of employee options, to be recognized in the consolidated statement of earnings based on the grant date fair value of the award. Under the modified prospective method, we are required to record equity-based compensation expense for all awards granted after the date of adoption and for the unvested portion of previously granted awards outstanding as of the date of adoption. The fair values of all options were valued using a Black-Scholes model.

In anticipation of the adoption of SFAS No. 123(R), we did not modify the terms of any previously granted awards.

Mssrs. Linden, Hames and Stolper who hold the positions of Executive Vice President and General Counsel, Executive Vice President and Chief Operating Officer, Western Operations and Executive Vice President and Chief Financial Officer, respectively, were issued certain warrants in prior periods which fully vest upon the sooner of their respective multi-year vesting schedules or at such time as the 30 day average closing stock price of our shares in the public market in which it trades equals or exceeds $6.00. For the 30 day trading period ended March 7, 2007, the average closing price exceeded $6.00 per share. Accordingly, these warrants fully vested resulting in the full expensing of the remaining unamortized fair value of these warrants of $1.7 million in the first quarter of 2007.

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):

	THREE MONTHS ENDED SEPTEMBER 30,		
	2007		2
	AS REPORTED	IMPACT OF EQUITY-BASED COMPENSATION	AS REPORTED
Income from operations	$ 8,880	$ (281)	$ 3,582
Net loss	(1,955)	(281)	(2,477)
Net basic and diluted loss per share	(0.06)	(0.01)	(0.12)

	NINE MONTHS ENDED SEPTEMBER 30,		
	2007		2
	AS REPORTED	IMPACT OF EQUITY-BASED COMPENSATION	AS REPORTED
Income from operations	$ 24,526	$ (2,883)	$ 12,314
Net loss	(5,369)	(2,883)	(5,988)
Net basic and diluted loss per share	(0.16)	(0.08)	(0.29)

The following summarizes all of our option and warrant activity for the nine months ended September 30, 2007:

OUTSTANDING OPTIONS	SHARES	WEIGHTED AVERAGE EXERCISE PRICE PER COMMON SHARE	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (IN YEARS)
Balance, December 31, 2006	350,625	$1.01	
Granted	95,000	9.50	
Exercised	(138,125)	0.85	
Canceled or expired	(7,250)	3.26	
Balance, September 30, 2007	300,250	$3.72	5.11
Exercisable at September 30, 2007	202,750	$1.02	1.93

OUTSTANDING WARRANTS	SHARES	WEIGHTED AVERAGE EXERCISE PRICE PER COMMON SHARE	WEIGHTED AVERA REMAINING CONTRACTUAL LI (IN YEARS)
Balance, December 31, 2006	4,590,667	$1.20	
Granted	1,450,000	5.32	
Exercised	(612,000)	0.93	
Canceled or expired	(282,000)	2.47	
Balance, September 30, 2007	5,146,667	$2.32	3.48
Exercisable at September 30, 2007	3,753,667	$3.61	1.16

The aggregate intrinsic value in the table above represents the total pretax intrinsic value (the difference between our closing stock price on September 30, 2007 and the exercise price, multiplied by the number of in-the-money options/warrants) that would have been received by the holder had all holders exercised their options/warrants on September 30, 2007. Total intrinsic value of options and warrants exercised during the nine months ended September 30, 2007 was approximately $6.1 million. As of September 30, 2007, total unrecognized share-based compensation expense related to non-vested employee awards was approximately $4.9 million, which is expected to be recognized over a weighted average period of approximately 4.4 years.

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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 weighted-average grant date fair value of stock options and warrants granted during the nine months ended September 30, 2007 was $3.80 and was $0.47 for the nine months ended September 30, 2006. 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, 2007	4.64%	4.1 years	94.65%	---
September 30, 2006	4.73%	4.72 years	99.36%	---

We have determined the expected term assumption under the "Simplified Method" as defined in SAB 107. 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.

NOTE 9 - SUBSEQUENT EVENTS

On October 9, 2007, we completed our purchase of Liberty Pacific Imaging located in Encino, California for $2.8 million. 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, and has since been a fixture in the Encino/Tarzana market of the San Fernando Valley in Los Angeles. The acquisition allows us to consolidate a portion of our Encino/Tarzana MRI volume onto the existing Liberty Pacific scanner. This consolidation will make available our existing 3T MRI unit in that market, which will be moved to our Squadron facility in Rockland County, New York.

On October 15 2007 we divested a non-course center in Golden, Colorado for $325,000.

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

OVERVIEW

Since our acquisition of Radiologix on November 15, 2006, we have operated a group of regional networks comprised of 143 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 MRI, CT, PET, nuclear medicine, mammography, ultrasound, X-ray, and fluoroscopy. The Company's operations comprise a single segment for financial reporting purposes.

The results of operations of Radiologix and its wholly-owned subsidiaries have been included in the consolidated financial statements from the date of acquisition. The consolidated financial statements also include the accounts of RadNet, Inc., Radnet Management, Inc., or Radnet Management, and 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., and Diagnostic Imaging Services, Inc., or 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 17% 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 52 of our facilities located in California under a management agreement with us, and contracts with various other independent physicians and physician groups to provide the professional medical services at most of our other California facilities. We obtain professional medical services from BRMG in California, rather than provide such services directly or through subsidiaries, in order to comply with California's prohibition against the corporate practice of medicine. However, as a result of our close relationship with Dr. Berger and BRMG, we believe that we are able to better ensure that medical service is provided at our California facilities in a manner consistent with our needs and expectations and those of our referring physicians, patients and payors than if we obtained these services from unaffiliated physician groups. At eleven former Radiologix centers

in California and at all of the former Radiologix centers which are located outside of California, we have entered into long-term contracts with prominent radiology groups in the area to provide physician services at those facilities. The operations of BRMG are consolidated with us as a result of the contractual and operational relationship among BRMG, Dr. Berger, and us. We are considered to have a controlling financial interest in BRMG pursuant to the guidance in Emerging Issues Task Force Issue 97-2 (EITF 97-2). BRMG is a partnership of Pronet Imaging Medical Group, Inc. and Beverly Radiology Medical Group, both of which are 99%-owned by Dr. Berger. RadNet provides non-medical, technical and administrative services to BRMG for which it receives a management fee.

Radiologix, our wholly-owned subsidiary, contracts with radiology practices to provide professional services, including supervision and interpretation of diagnostic imaging procedures' performed in its diagnostic imaging centers. The radiology practices maintain full control over the provision of professional radiological services. The contracted radiology practices generally have outstanding physician and practice credentials and reputations; strong competitive market positions; a broad sub-specialty mix of physicians; a history of growth and potential for continued growth.

Radiologix enters 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, it provides management services and receives a fee based on the practice group's professional revenue, including revenue derived outside of its diagnostic imaging centers. Radiologix owns the diagnostic imaging assets and, therefore, receives 100% of the technical reimbursements associated with imaging procedures.

Radiologix has 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.

All of our facilities employ state-of-the-art equipment and technology in modern, patient-friendly settings. Many of our facilities within a particular region are interconnected and integrated through our advanced information technology system. One hundred-four of our facilities are multi-modality sites, offering various combinations of magnetic resonance imaging, or MRI, computed tomography, or CT, positron emission tomography, or PET, nuclear medicine, mammography, ultrasound, diagnostic radiology, or X-ray and fluoroscopy. Thirty-nine of our facilities are single-modality sites, offering either X-ray or MRI. Consistent with our regional network strategy, we locate our single-modality facilities near multi-modality sites to help accommodate overflow in targeted demographic areas.

At our facilities, we provide all of the equipment as well as all non-medical operational, management, financial and administrative services necessary to provide diagnostic imaging services. We give our facility managers authority to run our facilities to meet the demands of local market conditions, while our corporate structure provides economies of scale, corporate training programs, standardized policies and procedures and sharing of best practices across our networks. Each of our facility managers is responsible for meeting our standards of patient service, managing relationships with local physicians and payors and maintaining profitability.

We derive substantially all of our revenue, directly or indirectly, from fees charged for the diagnostic imaging services performed at our facilities.

ADOPTION OF THE PROVISIONS OF STAFF ACCOUNTING BULLETIN NO. 108 ("SAB NO. 108")

In September 2006, the SEC issued Staff Accounting Bulletin No. 108 ("SAB No. 108"), "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements." SAB No. 108 specifies how the carryover or reversal of prior year unrecorded financial statement misstatements should be considered in quantifying a current year misstatement. SAB No. 108 requires an approach that considers the amount by which the current year Consolidated Statement of Operations is misstated ("rollover approach") and an approach that considers the cumulative amount by which the current year Consolidated Balance Sheet is misstated ("iron curtain approach").

Prior to the issuance of SAB No. 108, either the rollover or iron curtain approach was acceptable for assessing the materiality of financial statement misstatements. Prior to the Company's application of the guidance in SAB No. 108, management used the rollover approach for quantifying financial statement misstatements.

Initial application of SAB No. 108 allows registrants to elect not to restate prior periods but to reflect the initial application in their annual financial statements covering the first fiscal year ending after November 15, 2006. The cumulative effect of the initial application should be reported in the carrying amounts of assets and liabilities as of the beginning of that fiscal year and the offsetting adjustment, net of tax, should be made to the opening balance of retained earnings for that year. We elected to record the effects of applying SAB No. 108 using the cumulative effect transition method. The misstatement that has been corrected is described below.

Subsequent to the completion of the financial statement close process for the three and six months ended June 30, 2007, we determined that certain lease rate escalation clauses had not been properly accounted for in accordance with generally accepted accounting principles for the fiscal years ended October 31, 2004, 2005 and 2006 as well as for the two months ended December 31, 2006 (our transition period) and for the quarter ended March 31, 2007. The Company had been recording rent expense based on the contractual terms of the lease agreements. We reviewed Statement of Financial Accounting Standards No. 13 (SFAS No. 13) and its related interpretations including Financial Accounting Standards Board Technical Bulletin 85-3 "Accounting for Operating Leases with Scheduled Rent Increases" (FTB 85-3), scheduled rent increases and rent holidays in an operating lease should be recognized by the lessee on a straight-line basis over the lease term unless another systematic and rational allocation is more representative of the time pattern in which leased property is physically employed. FTB 85-3 specifically states that scheduled rent increases designed to reflect the anticipated effects of inflation is not a justification to support not straight lining the lease cost over the lease term. Based on our review, we have concluded that the straight-line method is required.

In accordance with the transition provisions of SAB No. 108, we recorded a $3.4 million cumulative effect adjustment to retained earnings and an offsetting amount to long-term deferred rent as of January 1, 2007. In addition, we recognized an additional $697,000 of facility rent expense for the six months ended June 30, 2007 related to the application of the straight-line methodology to certain leases with rent escalators.

Based on the nature of these adjustments and the totality of the circumstance surrounding these adjustments, we have concluded that these adjustments are immaterial to prior years' consolidated financial statements under our previous method of assessing materiality, and therefore, have elected, as permitted under the transition provisions of SAB No. 108, to reflect the effect of these adjustments in opening liabilities as of January 1, 2007, with the offsetting adjustment reflected as a cumulative effect adjustment to opening retained earnings as of January 1, 2007.

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:

- o Our reported amounts of assets and liabilities in our consolidated balance sheets at the dates of the financial statements;
- o Our disclosure of contingent assets and liabilities at the dates of the financial statements; and
- o 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 Securities and Exchange Commission (SEC), defines critical accounting estimates as those that are both most important to reflect a company's financial condition and results of operations and require management's most difficult, subjective or complex judgment, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods.

As of the period covered in this report, there have been no material changes to the critical accounting estimates we use, and have explained, in both our annual report on Form 10-K for the fiscal year ended October 31, 2006 and our transition report on Form 10-K/T for the two months ended December 31, 2006.

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.

	THREE MONTHS ENDED SEPTEMBER 30,		NIN S
	2007	2006	200
NET REVENUE	100.0%	100.0%	100
OPERATING EXPENSES			
Operating expenses	75.8%	75.7%	75
Depreciation and amortization	10.3%	10.3%	10
Provision for bad debts	5.8%	4.2%	6
Loss on sale of equipment	0.0%	0.8%	0
Severance costs	0.0%	0.0%	0
Total operating expenses	91.9%	91.1%	92
INCOME FROM OPERATIONS	8.1%	8.9%	7
OTHER EXPENSES (INCOME)			
Interest expense	10.6%	15.3%	10
Loss on debt extinguishment, net	0.0%	-0.1%	0
Other expense (income)	0.0%	0.1%	0
Total other expense	10.6%	15.3%	10
LOSS BEFORE INCOME TAXES, MINORITY INTERESTS AND EARNINGS FROM JOINT VENTURES	-2.5%	-6.4%	-2
Provision for income taxes	-0.1%	0.0%	0
Minority interest in (income) loss of subs	-0.2%	0.0%	-0
Earnings from joint ventures	1.0%	0.2%	1
NET LOSS	-1.8%	-6.2%	-1

THREE MONTHS ENDED SEPTEMBER 30, 2007 COMPARED TO THE THREE MONTHS ENDED SEPTEMBER 30, 2006

NET REVENUE

Net revenue for the three months ended September 30, 2007 was $110.2 million compared to $40.0 million for the three months ended September 30, 2006, an increase of $70.2 million, or 175.3%. Net revenue from the acquisition of Radiologix, effective November 15, 2006, was $67.6 million for the three months ended September 30, 2007. Net revenue excluding Radiologix increased $2.6 million for the three months ended September 30, 2007 when compared to the same period last year. This increase is mainly due to an increase in procedure volumes from existing centers as well as from the addition of new centers and is net of the effects of reimbursement reductions experienced as a result of the government's reduction of certain Medicare payments (DRA), which became effective in January 2007.

OPERATING EXPENSES

Operating expenses for the three months ended September 30, 2007 increased approximately $53.2 million, or 175.4%, from $30.3 million for the three months ended September 30, 2006 to $83.5 million for the three months ended September 30, 2007. The following table sets forth our operating expenses for the three months ended September 30, 2007 and 2006 (in thousands):

Salaries and professional reading fees (excluding stock based compensation and severanc
Stock based compensation
Building and equipment rental
General administrative expenses
Total operating expenses
Depreciation and amortization
Provision for bad debts
Loss on sale of equipment, net
Severance costs

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

Salaries and professional reading fees increased $25.9 million, or 135.4%, to $45.1 million for the three months ended September 30, 2007 compared to $19.2 million for the three months ended September 30, 2006. During the three months ended September 30, 2007, salaries and professional reading fees were $23.3 million for Radiologix. Salaries excluding Radiologix increased $2.6 million for the three months ended September 30, 2007 when compared to the same period last year.

STOCK BASED COMPENSATION

Stock compensation increased $165,000 to $281,000 for the three months ended September 30, 2007 compared to $116,000 for the three months ended September 30, 2006. This increase is primarily due to additional options and warrants granted during the last three months of 2006 and the first nine months of 2007.

SEVERANCE

During the three months ended September 30, 2007, we recorded severance costs of $30,000 associated with the integration of Radiologix.

BUILDING AND EQUIPMENT RENTAL

Building and equipment rental expenses increased $8.7 million, or 386.3%, to $10.9 million for the three months ended September 30, 2007 compared to $2.2 million for the three months ended September 30, 2006. During the three months ended September 30, 2007, building and equipment rental expense was $7.9 million for Radiologix. Building and equipment rental expenses excluding Radiologix increased $800,000 for the three months ended September 30, 2007 when compared to the same period last year. The increase was due to normal consumer price index escalations built into existing operating leases as well as additional facility rent from new centers, including approximately $240,000 from centers acquired during 2007 (see Note 3 to our consolidated financial statements).

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 at 3.62% of net revenue for the three-month period. Overall, general and administrative expenses increased $18.4 million, or 208.9%, for the three months ended September 30, 2007 compared to the previous period. During the three months ended September 30, 2007, general and administrative expenses were $15.5 million for Radiologix. General and administrative expenses excluding Radiologix increased $2.9 million for the three months ended September 30, 2007 when compared to the same period last year. The increase is in line with our increase in procedure volumes at both existing centers as well as new centers. Also in this increase are increased expenditures for accounting fees associated with our efforts towards compliance with the Sarbanes-Oxley Act of 2002 by our deadline of December 2007.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization increased $7.3 million, or 176.1%, to $11.4 million for the three months ended September 30, 2007 when compared to the same period last year. During the three months ended September 30, 2007, depreciation and amortization expense was $6.5 million for Radiologix, which includes $1.1 million of amortization of intangible assets associated with the fair value of management service agreements and covenants not to compete. Depreciation and amortization expense excluding Radiologix increased $800,000 for the three months ended September 30, 2007 when compared to the same period last year. The increase is primarily due to property and equipment additions as well as the acceleration of the amortization of leasehold improvements related to our vacated San Gabriel facility of approximately $184,000.

PROVISION FOR BAD DEBT

Provision for bad debts increased $4.7 million, or 276.8%, to $6.4 million, or 5.8% of net revenue, for the three months ended September 30, 2007 compared to $1.7 million, or 4.2% of net revenue, for the three months ended September 30, 2006. During the three months ended September 30, 2007, the provision for bad debt was $5.1 million, or 7.6% of net revenue, for Radiologix. Historically, Radiologix has experienced higher bad debt expense as compared to our business pre-acquisition due to the higher concentration of business associated with hospital payers in the markets that Radiologix serves and the poor collection percentages that are inherent with hospital business. Provision for bad debts excluding Radiologix decreased $400,000 for the three months ended September 30, 2007 when compared to the same period last year.

INTEREST EXPENSE

Interest expense for the three months ended September 30, 2007 increased approximately $5.5 million, or 90.3%, from the same period in 2006. The increase was primarily due to the increased indebtedness of $360 million incurred upon the acquisition of Radiologix as well as an addition to our first lien Term Loan B of $25 million in August 2007. Also included is the amortization of our deferred finance costs associated with this new financing which was approximately $498,000 for the three months ended September 30, 2007 as well as realized losses on our fair value hedges of $712,000 for the three months ended September 30, 2007.

MINORITY INTEREST IN INCOME OF SUBSIDIARIES

For the three months ended September 30, 2007, we recognized $198,000 in minority interest expense related to consolidated joint ventures of Radiologix.

EQUITY IN EARNINGS FROM UNCONSOLIDATED JOINT VENTURES

For the three months ended September 30, 2007, we recognized equity in earnings from unconsolidated joint ventures of $1,103,000, including $1,079,000 from investments of Radiologix and $24,000 from an investment in a PET center in Palm Desert, California.

NINE MONTHS ENDED SEPTEMBER 30, 2007 COMPARED TO THE NINE MONTHS ENDED SEPTEMBER 30, 2006

NET REVENUE

Net revenue for the nine months ended September 30, 2007 was $323.1 million compared to $120.0 million for the nine months ended September 30, 2006, an increase of $203.0 million, or 169.1%. Net revenue from the acquisition of Radiologix, effective November 15, 2006, was $197.6 million for the nine months ended September 30, 2007. Net revenue excluding Radiologix increased $5.4 million for the nine months ended September 30, 2007 when compared to the same period last year. This increase is mainly due to an increase in procedure volumes from existing centers as well as from the addition of new centers and is net of the effects of reimbursement reductions experienced as a result of the government's reduction of certain Medicare payments (DRA), which became effective in January 2007.

OPERATING EXPENSES

Operating expenses for the nine months ended September 30, 2007 increased approximately $154.3 million, or 171.1%, from $90.1 million for the nine months ended September 30, 2006 to $244.4 million for the nine months ended September 30, 2007. The following table sets forth our operating expenses for the nine months ended September 30, 2007 and 2006 (in thousands):

Salaries and professional reading fees (excluding stock based compensation and severanc
Stock based compensation
Building and equipment rental
General administrative expenses
NASDAQ one-time listing fee
Total operating expenses
Depreciation and amortization
Provision for bad debts
Loss on sale of equipment, net
Severance costs

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

Salaries and professional reading fees increased $74.1 million, or 131.3%, to $130.6 million for the nine months ended September 30, 2007 compared to $56.5 million for the nine months ended September 30, 2006. During the nine months ended September 30, 2007, salaries and professional reading fees were $67.0 million for Radiologix. Salaries excluding Radiologix increased $7.1 million for the nine months ended September 30, 2007 when compared to the same period last year, which is in line with DRA effected increases in net revenue and increases in our procedure volumes.

STOCK BASED COMPENSATION

Stock compensation increased $2.5 million to $2.9 million for the nine months ended September 30, 2007 compared to $392,000 for the nine months ended September 30, 2006. This increase is primarily due to additional options and warrants granted during the last three months of 2006 and the first nine months of 2007. Also included in this increase is $1.7 million of additional stock based compensation expense recorded during the nine months ended September 30, 2007 as a result of the vesting of warrants.

Messrs. Linden, Hames and Stolper who hold the positions of Executive Vice President and General Counsel, Executive Vice President and Chief Operating Officer, Western Operations and Executive Vice President and Chief Financial Officer, respectively, were issued certain warrants in prior periods which fully vest upon the sooner of their respective multi-year vesting schedules or at such time as the 30 day average closing stock price of our shares in the public market in which it trades equals or exceeds $6.00. For the 30 day trading period ended March 7, 2007, the average closing price exceeded $6.00 per share. Accordingly, these warrants fully vested resulting in the full expensing of the remaining unamortized fair value of these warrants of $1.7 million.

SEVERANCE

During the nine months ended September 30, 2007, we recorded severance costs of $815,000 associated with the integration of Radiologix.

BUILDING AND EQUIPMENT RENTAL

Building and equipment rental expenses increased $24.6 million, or 378.6%, to $31.0 million for the nine months ended September 30, 2007 compared to $6.5 million for the nine months ended September 30, 2006. During the nine months ended September 30, 2007, building and equipment rental expense was $22.4 million for Radiologix. Building and equipment rental expenses excluding Radiologix increased $2.2 million for the nine months ended September 30, 2007

when compared to the same period in the previous year. The increase was due to normal consumer price index escalations built into existing operating leases as well as additional facility rent from new centers including approximately $288,000 from centers acquired during 2007 (see Note 3 to our consolidated financial statements). Also included in this increase is $638,000 resulting from straight-lining the built-in rent escalators existing in some of our lease contracts.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses include billing fees, medical supplies, office supplies, repairs and maintenance, insurance, business tax and license, outside services, utilities, marketing, travel and other expenses. Many of these expenses are variable in nature, including medical supplies and billing fees, which increase with volume and repairs, and maintenance under our GE service agreement at 3.62% of net revenue for the nine-month period. Overall, general and administrative expenses increased $53.0 million, or 197.6%, for the nine months ended September 30, 2007 compared to the previous period. During the nine months ended September 30, 2007, general and administrative expenses were $46.5 million for Radiologix. General and administrative expenses excluding Radiologix increased $6.5 million for the nine months ended September 30, 2006 when compared to the same period last year. The increase is in line with our increase in procedure volumes at both existing centers as well as new centers. Also in this increase are increased expenditures for accounting fees associated with our efforts towards compliance with the Sarbanes-Oxley Act of 2002 by our deadline of December 2007.

NASDAQ ONE-TIME LISTING FEE

During the nine months ended September 30, 2007, we recorded $120,000 for fees associated with listing our common stock with NASDAQ.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization increased $20.3 million, or 166.7%, to $32.5 million for the nine months ended September 30, 2007 when compared to the same period last year. During the nine months ended

September 30, 2007, depreciation and amortization expense was $18.1 million for Radiologix, which includes $3.2 million of amortization of intangible assets associated with the fair value of management service agreements and covenants not to compete. Depreciation and amortization expense excluding Radiologix increased $2.2 million for the nine months ended September 30, 2007 when compared to the same period last year primarily due to property and equipment additions, as well as the acceleration of the amortization of leasehold improvements related to our vacated Orange, Rancho Bernardo and San Gabriel facilities of approximately $716,000.

PROVISION FOR BAD DEBT

Provision for bad debt increased $15.8 million, or 314.4%, to $20.8 million, or 6.4% of net revenue, for the nine months ended September 30, 2007 compared to $5.0 million, or 4.2% of net revenue, for the nine months ended September 30, 2006. During the nine months ended September 30, 2007, the provision for bad debt was $15.8 million, or 8.0% of net revenue, for Radiologix. Historically, Radiologix has experienced higher bad debt as compared to our business pre-acquisition due to the higher concentration of business associated with hospital payers in the markets that Radiologix serves and the poor collection percentages that are inherent with hospital business. Provision for bad debts excluding Radiologix was unchanged at $5.0 million for the nine months ended September 30, 2007 and 2006.

INTEREST EXPENSE

Interest expense for the nine months ended September 30, 2007 increased approximately $16.9 million, or 109.1%, from the same period in 2006. The increase was primarily due to the increased indebtedness of $360 million incurred upon the acquisition of Radiologix as well as an addition to our first lien Term Loan B of $25 million in August 2007. Also included is the amortization of our deferred finance costs associated with this new financing which was approximately $1.5 million for the nine months ended September 30, 2007 as well as realized losses on our fair value hedges of $155,000 for the nine months ended September 30, 2007.

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MINORITY INTEREST IN INCOME OF SUBSIDIARIES

For the nine months ended September 30, 2007, we recognized $483,000 in minority interest expense related to consolidated joint ventures of Radiologix.

EQUITY IN EARNINGS FROM UNCONSOLIDATED JOINT VENTURES

For the nine months ended September 30, 2007, we recognized equity in earnings from unconsolidated joint ventures of $3,080,000 including $3,008,000 from investments of Radiologix and $72,000 from an investment in a PET center in Palm Desert, California.

LIQUIDITY AND CAPITAL RESOURCES

On November 15, 2006, we entered into a $405 million senior secured credit facility with GE Commercial Finance Healthcare Financial Services (the "November 2006 Credit Facility"). This facility was used to finance our acquisition of Radiologix, refinance existing indebtedness, pay transaction costs and expenses relating to our acquisition of Radiologix, and to provide financing for working capital needs post-acquisition. The facility consists of a revolving credit facility of up to $45 million, a $225 million first lien Term

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

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 B and $10 million of additional capacity under our existing revolving line of credit. The Incremental Facility will be used to fund certain identified strategic initiatives and for general corporate purposes. The terms of our first lien term loan as explained above will remain unchanged.

As part of the financing, we swapped 50% of the aggregate principal amount of the facilities to a floating rate within 90 days of the closing. On April 11, 2006, effective April 28, 2006, we entered into an interest rate swap on $73.0 million fixing the LIBOR rate of interest at 5.47% for a period of three years. This swap was made in conjunction with the $161.0 million credit facility that closed on March 9, 2006. In addition, on November 15, 2006, we entered into an interest rate swap on $107.0 million fixing the LIBOR rate of interest at 5.02% for a period of three years, and on November 28, 2006, we entered into an interest rate swap on $90.0 million fixing the LIBOR rate of interest at 5.03% for a period of three years. Previously, the interest rate on the above $270.0 million portion of the credit facility was based upon a spread over LIBOR which floats with market conditions.

The Company documents its risk management strategy and hedge effectiveness at the inception of the hedge, and, unless the instrument qualifies for the short-cut method of hedge accounting, over the term of each hedging relationship. The Company's use of derivative financial instruments is limited to interest rate swaps, the purpose of which is to hedge the cash flows of variable-rate indebtedness. The Company does not hold or issue derivative financial instruments for speculative purposes. In accordance with Statement of Financial Accounting Standards No. 133, derivatives that have been designated and qualify as cash flow hedging instruments are reported at fair value. The gain or loss on the effective portion of the hedge (i.e., change in fair value) is initially reported as a component of other comprehensive income in the Company's Consolidated Statement of Stockholders' Equity. The remaining gain or loss, if any, is recognized currently in earnings. Of the derivatives that were not designated as cash flow hedging instruments, we recorded an increase to interest expense of approximately $289,000 for the nine months ended September 30, 2007. The corresponding liability of $442,000 is included in the other non-current liabilities in the consolidated balance sheet at September 30, 2007. This liability was $710,000 at December 31, 2006.

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 decreased during the nine months ended September 30, 2007 to zero from $3.2 million at December 31, 2006.

Cash provided by operating activities for the nine months ended September 30, 2007 was $20.7 million compared to $7.8 million for the same period in 2006.

Cash used by investing activities for the nine months ended September 30, 2007 was $34.3 million compared to cash used of $10.9 million for the same period in 2006. For the nine months ended September 30, 2007 and 2006, we purchased property and equipment for approximately $19.4 million and $7.5 million, respectively. During the nine months ended September 30, 2007, we recorded the purchase of imaging facilities of $15.7 million (see Note 3 to our consolidated financial statements) compared to $3.4 million during the nine months ended September 30, 2006. Also, during the nine months ended September 30, 2007, we generated $1.3 million of cash from the sale of one of our imaging facilities acquired through our purchase of Radiologix.

Cash generated from financing activities for the nine months ended September 30, 2007 was $10.4 million compared to $3.1 million for the same period in 2006. The primary source of cash during the nine months ended September 30, 2007 is our addition to our first lien term loan B with GE of $25 million. This was offset by the classification of $6.9 million as restricted under the terms of our addition to our first lien term loan B. Also included in our cash generated from financing was $549,000 of cash from the issuance of our common stock through the exercise of options and warrants.

RECENT ACCOUNTING PRONOUNCEMENTS

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 applies under most other accounting pronouncements that require or permit fair value measurements and does not require any new fair value measurements. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years, with earlier application encouraged. The provisions of SFAS No. 157 should be applied prospectively as of the beginning of the fiscal year in which the Statement is initially applied, except for a limited form of retrospective application for certain financial instruments. The Company will adopt this statement for fiscal year 2009. Management has not determined the effect the adoption of this statement will have on its consolidated financial position or results of operations.

In February 2007, the FASB issued SFAS No. 159, THE FAIR VALUE OPTION FOR FINANCIAL ASSETS AND FINANCIAL LIABILITIES, which permits entities to choose to measure many financial instruments and certain warranty and insurance contracts at fair value on a contract-by-contract basis. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007 (January 1, 2008 for calendar year-end companies). Management has not determined the effect the adoption of this statement will have on its consolidated financial position or results of operations.

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements reflect, among other things, management's current expectations and anticipated results of operations, all of which are subject to known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements, or industry results, to differ materially from those expressed or implied by such forward-looking statements. Therefore, any statements contained herein that are not statements of historical fact may be forward-looking statements and should be evaluated as such. Without limiting the foregoing, the words "believes," "anticipates," "plans," "intends," "will," "expects," "should" and similar words and expressions are intended to identify forward-looking statements. Except as required under the federal securities laws or by the rules and regulations of the SEC, we assume no obligation to update any such forward-looking information to reflect actual results or changes in the factors affecting such forward-looking information. The factors included in "Risks Relating to Our Business," in our Annual Report on Form 10-K for the fiscal year ended October 31, 2006 and our Transition Report on Form 10-K/T for the two month transition period ended December 31, 2006, among others, could cause our actual results to differ materially from those expressed in, or implied by, the forward-looking statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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.

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. This facility was used to finance our acquisition of Radiologix, refinance existing indebtedness, pay transaction costs and expenses relating to our acquisition of Radiologix, and to provide financing for working capital needs post-acquisition. The facility consists of a revolving credit facility of up to $45 million, a $225 million 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 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.

As part of the financing, we swapped 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 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 floated with market conditions.

In addition, our credit facility, classified as a long-term liability on our financial statements, is interest expense sensitive to changes in the general level of interest because it is based upon the current prime rate plus a factor.

ITEM 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, we performed an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)). Based upon that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures are not effective in alerting them prior to the end of a reporting period to all material information required to be included in our periodic filings with the SEC because we identified the following material weakness in the design of internal control over financial reporting: We concluded that we had insufficient processes to identify and resolve non-routine accounting matters, such as the identification of accrued liabilities associated with employee retention bonuses earned over specific time periods. The incorrect accounting for the foregoing was sufficient to lead management to conclude that a material weakness in the design of internal control over the accounting for non-routine transactions existed at September 30, 2007.

We determined to change the design of our internal controls over non-routine accounting matters by the identification of an outside resource at a recognized professional services company that we can consult with on non-routine transactions and the employment of qualified accounting personnel to deal with this issue together with the utilization of other senior corporate accounting staff, who are responsible for reviewing all non-routine matters and preparing formal reports on their conclusions, and conducting quarterly reviews and discussions of all non-routine accounting matters with our independent public accountants. We engaged MorganFranklin, a consulting firm with the requisite accounting expertise, to assist us, from time to time, in the evaluation and application of the appropriate accounting treatment, to provide support in the form of technical analysis related to accounting and financial reporting matters that may arise, and to provide management advice with respect to their preliminary conclusions regarding issues we wish to bring to their attention. To the extent our Chief Financial Officer identifies any non-routine accounting matters which require resolution, he will contact MorganFranklin and work closely with them, our audit committee and our auditors to resolve any issues. We are continuing to evaluate additional controls and procedures that we can implement and have added additional accounting personnel during fiscal 2007 to enhance our accounting processes and technical accounting resources. We do not anticipate that the cost of this remediation effort will be material to our financial statements. We believe that the engagement of MorganFranklin and use of their services should adequately address the identified weakness. With the acquisition of Radiologix we have added additional technical accounting staff from their organization which we believe will further reduce any material weakness.

It should be noted that any system of controls, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system will be met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events.

PART II - OTHER INFORMATION

ITEM 1 LEGAL PROCEEDINGS

At September 30, 2007, the status of all current legal matters previously disclosed in Part 1, Item 3, of our Form 10-K/T for the two months ended December 31, 2006 and Part II, Item 1 of our Form 10-Q for the quarter ended June 30, 2007 is unchanged.

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 October 31, 2006 and our Form 10-K/T for the two months ended December 31, 2006, which could materially affect our business, financial condition and results of operations. The risks described in our Forms 10-K and 10-K/T 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 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 14, 2007 By /s/ Howard G. Berger, M.D.

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

Date: November 14, 2007 By /s/ Mark D. Stolper

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

INDEX TO EXHIBITS

EXHIBIT NUMBER	DESCRIPTION
10.1	Amendment No. 3 to Credit Agreement (1)
10.2	Amendment No. 3 to Second Lien Credit Agreement (2)
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 *

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* Filed herewith.

(1) Incorporated by reference to exhibit 99.1 filed with Form 8-K for August 24, 2007.

(2) Incorporated by reference to exhibit 99.2 filed with Form 8-K for August 24, 2007.

cal arithmetic average EV to the equity research analyst consensus forecast for EBITDA to be generated over the next 12 months ratio (which is referred to in this section as "EV / NTM EBITDA") over various periods in time. The average EV / NTM EBITDA multiple in the period from 15 Aug 2012 to 14 Aug 2017 was 6.8x, compared to 7.3x as at August 14, 2017.

ABG Sundal Collier calculated the theoretical fair value of the Transocean Senior Unsecured Exchangeable Bond. Based on an assumed credit spread of 650 basis points for Transocean, 5 year USD swap rate of 1.8% and an assumed volatility range of the Transocean shares from 35% to 40%, the theoretical fair value of the Senior Unsecured Exchangeable Bond was estimated to be from 97.5% to 100.4% of the nominal value based on the Transocean closing price as at August 14, 2017.

Miscellaneous

ABG Sundal Collier, as part of its investment banking business, is continually engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, competitive bidding, secondary distributions of listed and unlisted securities, private placements and valuations for corporate and other purposes.

The preparation of an independent statement is a complex process and is not necessarily susceptible to partial analysis or summary description. Selecting portions of the analyses or of the summary set forth above, without considering the analyses as a whole, could create an incomplete view of the processes underlying ABG Sundal Collier's independent statement. When preparing the independent statement, ABG Sundal Collier considered the results of all of its analyses and did not attribute any particular weight to any factor or analysis considered by it. Rather, ABG Sundal Collier made its determination as to fairness on the basis of its experience and professional judgment after considering the results of all of its analyses. The fact that any specific analysis has been referred to in the summary above is not meant to indicate that such analysis was given greater weight than any other analysis referred to in the summary.

In performing its analyses, ABG Sundal Collier considered industry performance, general business and economic conditions and other matters, many of which are beyond the control of Songa Offshore and Transocean. The estimates of the future performance of Songa Offshore or Transocean in or underlying ABG Sundal Collier's analyses are not necessarily indicative of actual values or actual future results, which may be significantly more or less favourable than those estimates or those suggested by ABG Sundal Collier's analyses. These analyses were prepared solely as part of ABG Sundal Collier's analysis of the fairness, from a financial point of view, of the consideration to be paid by Transocean to the holders of Songa Offshore shares. The analyses do not purport to be appraisals or to reflect the prices at which a company might actually be sold or the prices at which any securities have traded or may trade at any time in the future. Accordingly, the estimates used in, and the ranges of valuations resulting from, any particular analysis described above are inherently subject to substantial uncertainty and should not be taken to be ABG Sundal Collier's view of the actual values of Songa Offshore or Transocean.

The type and amount of consideration payable in the Combination was determined through negotiations between Songa Offshore and Transocean, rather than by any financial advisor, and was approved by the Songa Offshore Board. The decision to enter into the Transaction Agreement with Transocean was solely that of Songa Offshore. As described above, ABG Sundal Collier's independent statement and analyses were only one of many factors considered by the Songa Offshore Board in its evaluation of the Offer and should not be viewed as determinative of the views of the Songa Board or management with respect to the Combination or the consideration to be paid to the holders of Songa Offshore shares.

Songa Offshore selected ABG Sundal Collier as advisor based on ABG Sundal Collier's reputation, experience and familiarity with Songa Offshore and its business. Songa Offshore has agreed to pay ABG Sundal Collier for its services in connection with the Combination a fee of USD 900,000. The fee is not contingent on closing of the Combination and is independent of the conclusion of the independent statement. Songa Offshore also has agreed to reimburse ABG Sundal Collier for its expenses arising in connection with ABG Sundal Collier's engagement and to indemnify ABG Sundal Collier against certain liabilities that may arise, out of ABG Sundal Collier's engagement.

In the ordinary course of ABG Sundal Collier's business, ABG Sundal Collier may actively trade Songa Offshore and Transocean shares and other securities of Songa Offshore and Transocean for ABG Sundal Collier's own account and for the accounts of customers and, accordingly, may at any time hold a long or short position in such securities.

ABG Sundal Collier and its affiliates have in the past provided, and in the future may provide, investment banking and other financial services to Songa Offshore not related to the Combination. During the two-year period prior to the date of the independent statement, ABG Sundal Collier acted as financial advisor to Songa Offshore in connection with a refinancing in 2016, including acting as joint lead manager for a new convertible bond issue and an equity issue. In the two years preceding the date of the independent statement, ABG Sundal Collier derived aggregate revenues from Songa Offshore of approximately USD 3.1 million for investment banking services

Additional Information

We cannot complete the Combination unless each of four agenda items described in the Proxy Statement is approved by our shareholders. The Transocean Board continues to recommend that you vote FOR the approval of each of the agenda items to be considered at the Extraordinary General Meeting as described in the Proxy Statement.

Shareholders who have already submitted proxies for the Extraordinary General Meeting may revoke them by (1) submitting a properly completed and executed proxy card with a later date and timely delivering it either directly to the independent proxy or to Vote Processing, c/o Broadridge at the addresses indicated in the Proxy Statement, (2) Giving written notice of the revocation prior to the Extraordinary General Meeting to Vote Processing, c/o Broadridge, at the addresses indicated in the Proxy Statement; or (3) appearing at the meeting, notifying the independent proxy, with respect to proxies granted to the independent proxy, and voting in person. Proxies which have already been submitted, and which are not subsequently revoked or changed as described above, will be voted at the Extraordinary General Meeting as indicated. Detailed information regarding voting procedures can be found in the Proxy Statement.

Except as described in this Proxy Supplement, the information disclosed in the Proxy Statement continues to apply. To the extent that information in this Proxy Supplement differs from information disclosed in the Proxy Statement, the information in this Proxy Supplement applies. The Proxy Statement, together with this Proxy Supplement, have been filed with the SEC and are also available for viewing on the on the Internet at www.proxyvote.com or www.deepwater.com/investorrelations/financial-reports. We will furnish a copy of this Proxy Supplement to any shareholder by mail upon request. All requests should be made in writing and directed to Transocean Ltd., Investor Relations, 4 Greenway Plaza, Houston, Texas 77046 U.S.A.

ANNEX A

INDEPENDENT STATEMENT OF ABG SUNDAL COLLIER ASA

The Board of Directors of Songa Offshore SE

P.O. Box 54023

3720 Limassol

Cyprus

Oslo, 20 December 2017

Independent statement in accordance with section 6-16 of the Norwegian Securities Trading Act

1.Background and introduction

On 13 August 2017, Transocean Ltd. ("Transocean") and Songa Offshore SE ("Songa Offshore" or the "Company") entered into a transaction agreement (the "Transaction Agreement"), which was announced on 15 August 2017 (the "Transaction Announcement"), whereby the parties agreed to seek to complete a business combination, to be effected by Transocean (itself or through a wholly owned subsidiary) making a recommended public voluntary exchange offer for all outstanding shares in Songa Offshore (the "Offer").

Transocean will launch the Offer on 21 December 2017. Transocean, on behalf of itself and through its direct wholly owned subsidiary, Transocean Inc, will offer to exchange each Songa Offshore share (on a fully diluted basis, including Songa Offshore shares issued by exercise of warrants or restricted share units, or conversion of Songa Offshore's convertible bonds) for a consideration (the "Consideration") consisting of 0.35724 newly issued registered shares of Transocean (the "Consideration Shares"), each with a par value of 0.10 Swiss franc ("CHF"), and USD 2.99726 principal amount of 0.5% Exchangeable Senior Bonds due 2022, which are exchangeable into shares of Transocean, par value CHF 0.10 per share (the "Exchangeable Bonds"), to be issued by Transocean Inc, a wholly owned subsidiary of Transocean. As part of the Offer, each Songa Offshore shareholder may instead elect to receive an amount in cash of NOK 47.50 per Songa Offshore share up to a maximum of NOK 125,000 per shareholder (the "Cash Election") in lieu of some or all of the Consideration Shares and Exchangeable Bonds such shareholder would otherwise be entitled to receive in the Offer. The offer period will commence on 21 December 2017 and will end on 23 January 2018 at 16:30 CET, subject to any extension by Transocean (the "Offer Period").

On the basis of the closing price of the Transocean shares on the New York Stock Exchange (NYSE) on 14 August 2017, the last trading day prior to the announcement of the Transaction Agreement, and the nominal value of the Exchangeable Bonds, the implied consideration being paid in the Offer is NOK 47.50 for each Songa Offshore share using the USD/NOK closing exchange rate as determined by Norges Bank as of 14 August 2017 (the "Implied Consideration"). The aggregate amount of Consideration paid to each Songa Offshore shareholder participating in the Offer shall be comprised, as near as possible, of 50% Consideration Shares and 50% Exchangeable Bonds, with any exercise by such shareholder of the Cash Election being deducted first from the aggregate number of Exchangeable Bonds issued to such shareholder and second to the aggregate number of Consideration Shares issued to such shareholder. The Consideration Shares and the Exchangeable Bonds shall be listed in the U.S.

The Offer is the first step in Transocean's plan to acquire all outstanding shares in Songa Offshore. If the Offer is completed and Transocean acquires Songa Offshore shares representing 90% (on a fully diluted basis) or more of the outstanding shares of the Company, Transocean has stated that, as soon as practicable following the completion of the

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Munkedamsveien 45 E, 7th floor	883603362 MVA
P.O Box 1444 – Vika	www.abgsc.com
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Offer, it intends to initiate a compulsory acquisition (squeeze-out) of the remaining Songa Offshore shares not directly owned by Transocean pursuant to article 36 of the Cyprus Takeover Bids Law (L.41(I)/2007) as amended.

Detailed information about the Offer is set out in the combined offer document and prospectus (the “Offer Document”) from Transocean dated 20 December 2017. ABG Sundal Collier strongly recommends shareholders of Songa Offshore to carefully study the information given in the Offer Document.

The Board of Directors of Songa Offshore has a duty under section 6-16 (1) of the Norwegian Securities Trading Act (“STA”) to issue a statement setting out its assessment of the Offer and the reasons on which it is based, including its views on the effects of the implementation of the Offer on the interests of the Company, including the effect, if any, of the strategic plans by the offeror on employment and the location of the Company's place of business.

In accordance with section 6-16 (4) of the STA, the Oslo Stock Exchange has required that such statement regarding the Offer is issued by an independent advisor on behalf of the Company.

ABG Sundal Collier ASA (“ABG Sundal Collier”) has been engaged by Songa Offshore to provide a statement on behalf of the Company in accordance with section 6-16 (4) of the STA. The Oslo Stock Exchange has approved ABG Sundal Collier to provide the statement.

ABG Sundal Collier has based its work on information available and market conditions as at the date of this statement. Our assessment is necessarily based upon economic, market and other conditions as they exist and can be evaluated on, and on the information made available to us as of, the date hereof. This statement does not reflect changes that may occur or may have occurred after its delivery, which could significantly alter the value, among other things, of Songa Offshore, Transocean or the trading price of Songa Offshore’s shares or Transocean’s shares, which are factors on which this statement was based. It should be understood that subsequent developments may affect this statement, and we do not have any obligation and assume no responsibility for updating, revising, or reaffirming any aspect of this statement.

2.The transaction timeline and shareholder undertakings

In March 2017, the Board of Directors of Songa Offshore was approached by representatives of Transocean to explore the opportunity to combine the businesses of Songa Offshore and Transocean. In June 2017, Transocean, Songa Offshore and their respective legal and financial advisors engaged in extensive discussions and negotiations regarding the potential business combination, and Transocean conducted an initial due diligence on Songa Offshore.

On 13 August 2017, Transocean and Songa Offshore entered into the Transaction Agreement, which was announced in the Transaction Announcement on 15 August 2017.

On 14 and 15 August 2017, Transocean obtained irrevocable undertakings from Songa Offshore shareholders, including Perestroika AS, Songa Offshore’s largest shareholder, and members of the Board of Directors (as further described below), representing in aggregate approximately 76.5% of the outstanding shares in the Company on a fully diluted basis (all outstanding shares in the company after the exercise of warrants and options and conversion of convertible bonds) to tender their Songa Offshore shares in the Offer.

These undertakings also apply to any Songa Offshore shares that these shareholders may acquire before the end of the Offer Period. These pre-acceptances cannot be withdrawn as a result of a superior offer from a third party. Perestroika AS has also agreed that it will not sell, transfer, encumber or otherwise dispose of the Consideration Shares for a period until 15 August 2018. This lock-up shall not apply to any shares that Perestroika acquires through exchange of Exchangeable Bonds. The Cash Election was not available to the pre-accepting shareholders.

On 21 December 2017, Transocean will launch the Offer and publish the Offer Document.

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3.Methodology

In connection with this statement, ABG Sundal Collier has reviewed and considered among other things:

(i) The Offer Document dated 20 December 2017;
(ii) the Transaction Agreement, dated 13 August 2017;
(iii) certain reports presentations and communications from the Company and Transocean;
(iv) the reported price and trading activity for the Company's shares and Transocean's shares;
(v) certain publicly available research analyst reports for the Company and Transocean;
(vi) certain financial and stock market information for the Company and Transocean compared with similar information for certain other companies, the securities of which are publicly traded;
(vii) the financial terms of certain other business acquisitions and combinations that we have deemed to be relevant;
(viii) certain internal financial analyses and forecasts for Transocean prepared by its management, as provided by Songa Offshore to us and approved for our use by the Company;
(ix) certain information, input and discussions with Songa Offshore concerning the Company and the analysis undertaken by us; and
(x) such other financial analyses, studies and matters that we considered appropriate.

We have, with Songa Offshore's consent, relied on, and assumed, without independent verification upon the accuracy and completeness of all of the financial and other information provided to us by Songa Offshore and Transocean for purposes of preparing this statement. We have also relied upon and assumed the accuracy, completeness and fairness of all financial and other information that has been provided to the public by Songa Offshore and Transocean.

We have not conducted any independent verification of the information contained in the Offer Document, but have assumed its accuracy and completeness, and that no information is misleading or withheld. In addition, with Songa Offshore's consent, we have not made an independent evaluation or appraisal of the assets and liabilities of Songa Offshore, Transocean or any subsidiary or affiliate thereof and we have not been furnished with any such evaluation or appraisal, nor have we made any physical inspection or technical evaluation of the assets.

ABG Sundal Collier has not evaluated any tax, accounting or legal issues in relation to the Offer. We have also assumed that all governmental, regulatory or other consents and approvals necessary for the consummation of the combination will be obtained without any adverse effect on Songa Offshore or Transocean in any way meaningful to our analysis. ABG Sundal Collier has assumed that the combination will be consummated on the terms set forth in Offer Document, without the waiver or modification of any term or condition the effect of which would be in any way meaningful to our analysis.

4.Impact on the Company and its employees

In the Offer Document, Transocean states that the combination with Songa Offshore is an excellent strategic fit for Transocean. Transocean also anticipates the business combination to result in annual cost and operational synergies of approximately USD 40 million, of which some is expected to arise from savings in general and administrative costs and streamlining of the combined operations. Although Transocean has as of the date of this statement not determined the organisational structure of the combined entity, the business combination may affect the total number of employees in

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the combined group, and as a consequence employees currently employed by Songa Offshore, as well as place of work for Songa Offshore's employees and the location of offices. Transocean states that it expects that the business combination will create one of the leading players in the harsh environment and ultra-deepwater drilling sector and therefore also create significant opportunities for the employees of the combined group. The Transaction Agreement also states that Songa Offshore and Transocean have discussed the future strategy of the Songa Offshore assets and organisation, with the intention for the combined company to establish a harsh environment center of excellence in Norway to serve the North Sea and other external harsh environment markets.

5.Views of the Board

All members of the Board of Directors who own shares in the Company, directly or indirectly, have entered into irrevocable undertakings to tender their Songa Offshore shares in the Offer. The Board of Directors has made a statement, included in the Offer Document, and supported by a fairness opinion from ABG Sundal Collier, recommending that shareholders of the Company tender their Songa Offshore shares in the Offer. The recommendation is supported by all six members of the Board. In addition, members of the Company's executive management team have entered into irrevocable undertakings to tender their Songa Offshore shares in the Offer.

According to Transocean, no payments, special advantages or prospects of special advantages of any kind have been or will be offered by Transocean to the management and / or the Board of Directors of Transocean or Songa Offshore or any of their subsidiaries in connection with the Offer (other than receiving the Consideration, if they are shareholders of Songa Offshore and accept the Offer in their capacity as shareholders).

6.Assessment of the Offer – summary

Songa Offshore's current earnings are solely derived from four Cat D semisubmersible drilling rigs operating on the Norwegian Continental Shelf under long-term drilling contracts with Statoil (the "Statoil Contracts"). The Cat D rigs were delivered from the yard in the period from July 2015 to March 2016. The Statoil Contracts have an average remaining duration of 5.8 years, which gives the Company a strong order backlog and relatively high degree of visibility with respect to projected earnings during the contract period. The Statoil Contracts also include options for Statoil to extend the contracts (up to 12 years for each of the Cat D rigs through four three year options).

The Company owns and operates three older semisubmersible drilling rigs (the "Legacy Rigs"). All three of the Legacy Rigs are currently idle and will require a periodic Special Periodic Survey ("SPS") between 2017 and 2022 in order to take on new drilling contracts on the Norwegian Continental Shelf, which may require significant investments in each of the Legacy Rigs. In the current challenging market environment characterised by limited demand for and excess supply of semisubmersible drilling rigs, it is uncertain whether the Legacy Rigs will contribute positively to Songa Offshore's earnings unless the market for drilling rigs improves.

Due to the long-term nature of the Statoil Contracts, we have noted that Songa Offshore is projected to maintain relatively stable earnings from its four Cat D rigs over the next 6 years, depending on the Company's ability to maintain a high operating and earnings efficiency for the Cat D rigs.

Songa Offshore has per 30 June 2017 debt obligations with outstanding principal of USD 2,244 million (total bank loans and other facilities including derivative financial instruments as reported by the Company), which matures in the period 2017-2021.

The Implied Consideration is within our valuation range for the Songa Offshore shares based on a discounted cash flow valuation, with variations in key operating and valuation assumptions believed to be reasonable. It should also be noted that the Statoil Options limit the upside potential after the firm contract period.

The Implied Consideration is above the highest publicly available equity research analyst target price and well above the average and median target prices reported prior to the Transaction Announcement. Following the Transaction

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Announcement, we have noted that several analysts have ceased coverage and at the date of this statement, the median recommendation was “HOLD”.

The trading price of the Songa Offshore shares was no higher than NOK 35.10 per share in the period from the public announcement of a comprehensive financial restructuring of the Company in March 2016 to the last trading day preceding the Transaction Announcement.

The premium of the Implied Consideration to the trading prices of the Songa Offshore shares before the Transaction Announcement is in line with average bid premiums observed in selected recent tender offers for publicly listed companies in the oil services industry and tender offers for publicly listed companies in the Nordics from 2004 to 2017.

Moreover, we have noted that the premium to the closing price of the Songa Offshore shares on the last trading day preceding the Transaction Announcement has increased following the Transaction Announcement as a result of a positive development in the Transocean share price after the Transaction Announcement.

7.Other observations and conclusion

Other elements that may be of relevance to the evaluation of the Offer include:

- Shareholders representing in aggregate approximately 76.5% of the outstanding shares (on a fully diluted basis) in Songa Offshore have entered into irrevocable undertakings to tender their shares in the Offer.
- the Transocean share price has increased by approximately 12% from 14 August 2017, the last trading day prior to the Transaction Announcement, to 19 December 2017, the last trading day prior to the date of this statement;
- no competing bids for Songa Offshore have been announced after the Transaction Announcement; and
- based on the Transocean closing price as of 19 December 2017 and the USD/NOK closing exchange rate as determined by Norges Bank as of 19 December 2017, the last trading day prior to the date of this statement, the aggregate value of the Consideration Shares and Exchangeable Bonds offered per share exceeds the cash amount per share offered in the Cash Election alternative (NOK 47.50 per share).

Considering all of the above, and subject to the qualifications, reservations and limitations set forth in this statement, it is our opinion that, as of the date hereof, the Consideration to be paid by Transocean in the Offer is fair from a financial point of view to the shareholders of Songa Offshore.

8.Reservations

This statement is prepared on the basis of the mandate as a financial advisor for the Board of Directors of Songa Offshore in connection with the Offer. Our statement does not address the relative merits of the Offer as compared to any other strategic alternatives that may be available to the Company; nor does it address any legal, regulatory, tax or accounting matters. Furthermore, the statement does not express any view on or the fairness of the transaction to, or any consideration received in connection therewith by, the holders of any other class of securities, creditors, or other constituencies of Songa Offshore.

This statement is not intended to be and shall not constitute a recommendation to the shareholders of Songa Offshore as to whether to tender their shares in the Offer from Transocean or not, and each shareholder remains solely responsible for his/her own decisions. In addition, we are not expressing any opinion as to the prices at which the shares or other securities of the Company or Transocean will trade at any time.

Evaluations of the nature contained in this assessment will always contain elements of uncertainty, and although reasonable care and efforts have been exerted, we do not accept any legal or financial liability related to this assessment or for any consequences resulting from acting to or relying on statements made in this assessment.

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We strongly recommend shareholders of Songa Offshore to carefully study the information given in the Offer Document and draw their own conclusions. Furthermore, we recommend shareholders of Songa Offshore to seek advice from professional advisors with respect to tax consequences and other effects of tendering their shares in the Offer. We undertake no responsibility with regards to any decisions based on the Boards statement and our assessment of the Offer made by Transocean.

Our assessment is based on the work and assumptions described above. We have assumed and relied upon, without independent verification, the accuracy and completeness of the information reviewed by us for the purposes of this statement. A significant part of the information has been provided by Songa Offshore and Transocean, and we have assumed that this information is true and complete and that essential information has not been concealed, misrepresented or withheld.

ABG Sundal Collier, as part of its investment banking business, is continually engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, competitive bidding, secondary distributions of listed and unlisted securities, private placements and valuations for corporate and other purposes. In the ordinary course of our business, we may actively trade Songa Offshore and Transocean shares and other securities of Songa Offshore and Transocean for our own account and for the accounts of customers and, accordingly, may at any time hold a long or short position in such securities.

Pursuant to the engagement letter between ABG Sundal Collier and Songa Offshore, ABG Sundal Collier is entitled to a fixed fee for services rendered to Songa Offshore in connection with the Offer, and the Company has agreed to reimburse our expenses arising, and indemnify us against certain liabilities that may arise, out of our engagement. The fee is not contingent on closing of the transaction and is independent of the conclusion of the independent statement.

We and our affiliates have in the past provided, and in the future may provide, investment banking and other financial services to Songa Offshore and have received or in the future may receive compensation for the rendering of these services.

Any dispute arising out of, or relating to, this statement shall be governed by the laws of Norway and shall be subject to the exclusive jurisdiction of the Norwegian courts.

Yours faithfully,

for ABG SUNDAL COLLIER ASA

/s/ ABG Sundal Collier ASA

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