



1510 Cotner Avenue  
Los Angeles, CA 90025

## 2020 ANNUAL REPORT

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington D.C. 20549

**FORM 10-K**

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

For the fiscal year ended December 31, 2020

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

Commission File Number 001-33307

**RadNet, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**13-3326724**  
(I.R.S. Employer  
Identification No.)

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

**90025**  
(Zip Code)

**Registrant's telephone number, including area code: (310) 478-7808**

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of Each Class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$.0001 par value	RDNT	NASDAQ Global Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant was approximately \$691.2 million on June 30, 2020 (the last business day of the registrant's most recently completed second quarter) based on the closing price for the common stock on the NASDAQ Global Market on June 30, 2020.

The number of shares of the registrant's common stock outstanding on March 5, 2021, was 52,272,092.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's definitive proxy statement for the 2021 Annual Meeting of Stockholders are incorporated herein by reference in Part III of this annual report on Form 10-K to the extent stated herein. Such proxy statement will be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the close of the registrant's fiscal year.

**RADNET, INC.**  
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## Cautionary Note Regarding Forward-Looking Statements

This annual report 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. Forward-looking statements reflect current views about future events and are based on our currently available financial, economic and competitive data and on current business plans. Actual events or results may differ materially depending on risks and uncertainties that may affect our operations, markets, services, prices and other factors.

Statements in this annual report concerning our ability to successfully acquire and integrate new operations, to grow our contract management business, our financial guidance, our future cost saving efforts, our increased business from new equipment or operations, inclusive of their anticipated benefits, our ability to finance our operations and the ongoing impact on our business, suppliers, payors, customers, referral sources, partners, patients and employees of the COVID-19 pandemic, related public health measures and the measures we are taking to respond to the COVID-19 pandemic are forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as “may,” “will,” “should,” “expect,” “intend,” “plan,” “anticipate,” “believe,” “estimate,” “predict,” “potential,” “continue,” “assumption” or the negative of these terms or other comparable terminology.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. These risks include those factors listed in Item 1 — “Business,” Item 1A— “Risk Factors,” Item 3— “Legal Proceedings,” Item 7 — “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere in this annual report and in other reports that we file with the Securities and Exchange Commission.

We do not undertake any responsibility to release publicly any revisions to these forward-looking statements to take into account events or circumstances that occur after the date of this annual report or any unanticipated events which may cause actual results to differ from those expressed or implied by the forward-looking statements contained in this annual report, except to the extent required by law.

## PART I

### Item 1. Business

#### Business Overview

We are a leading national provider of freestanding, fixed-site outpatient diagnostic imaging services in the United States based on number of locations and annual imaging revenue and have been in business since 1985. At December 31, 2020, we operated directly or indirectly through joint ventures with hospitals, 331 centers located in Arizona, California, Delaware, Florida, Maryland, New Jersey, and New York. Our centers provide physicians with imaging capabilities to facilitate the diagnosis and treatment of diseases and disorders and may reduce unnecessary invasive procedures, often reducing the cost and amount of care for patients. Our services include magnetic resonance imaging (MRI), computed tomography (CT), positron emission tomography (PET), nuclear medicine, mammography, ultrasound, diagnostic radiology (X-ray), fluoroscopy and other related procedures. The vast majority of our centers offer multi-modality imaging services, a key point of differentiation from our competitors. Our multi-modality strategy diversifies revenue streams, reduces exposure to reimbursement changes and provides patients and referring physicians one location to serve the needs of multiple procedures.

We seek to develop leading positions in regional markets in order to leverage operational efficiencies. We develop our medical imaging business through a combination of organic growth and acquisitions. Our scale and density within selected geographies provide close, long-term relationships with key payors, radiology groups and referring physicians. Each of our center-level and regional operations teams is responsible for managing relationships with local physicians and payors, meeting our standards of patient service, and maintaining profitability. We provide training programs, standardized policies and procedures, and sharing of best practices among the physicians in our regional networks.

In addition, we have a software division which complements our imaging business. Through our subsidiary eRAD, Inc., we sell computerized systems that distribute, display, store and retrieve digital images. We have a focus on Artificial Intelligence (AI), with the contributions from our acquisitions of Nulogix and DeepHealth plus our investment in Whiterabbit.ai, to develop and deploy AI suites to enhance radiologist interpretation of images.

## Available Information

All reports we file with the Securities and Exchange Commission are available free of charge via EDGAR through the SEC website at [www.sec.gov](http://www.sec.gov). We also maintain a website at [www.radnet.com](http://www.radnet.com) where we make available, free of charge, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports as soon as is reasonably practicable after the material is electronically filed with the Securities and Exchange Commission. References to our website in this report are provided as a convenience and the information contained on, or otherwise accessible through, the website is not incorporated by reference into, nor does it form a part of this annual report on Form 10-K or any other document that we file with the Securities and Exchange Commission.

## Industry Overview

Diagnostic imaging involves the use of non-invasive procedures to generate representations of internal anatomy and function that can be recorded on film or digitized for display on a video monitor. Diagnostic imaging procedures facilitate the early diagnosis and treatment of diseases and disorders and may reduce unnecessary invasive procedures, often minimizing the cost and amount of care for patients. Diagnostic imaging procedures include MRI, CT, PET, nuclear medicine, ultrasound, mammography, X-ray and fluoroscopy.

While X-ray remains the most commonly performed diagnostic imaging procedure, the fastest growing and higher margin procedures are MRI, CT and PET. The rapid growth in PET scans is attributable to the increasing recognition of the efficacy of PET scans in the diagnosis and monitoring of cancer. The number of MRI and CT scans performed annually in the United States continues to grow due to their wider acceptance by physicians and payors, an increasing number of applications for their use and a general increase in demand due to the aging population.

Although currently small in scope, Artificial Intelligence (AI) methods are now being employed to aid radiologists in scan interpretation by quickly allowing comparison to large imaging databases to enable pinpoint diagnosis in shorter time frames. In addition, AI methods can keep track of individuals needing procedures on a regular basis (i.e. mammograms, follow ups, etc.) and alert our staff to contact the patient and schedule appointments.

## Diagnostic Imaging Settings

Diagnostic imaging services are typically provided in one of the following settings:

### *Fixed-site, freestanding outpatient diagnostic facilities*

These facilities range from single-modality to multi-modality facilities and are generally not owned by hospitals or clinics. These facilities depend upon physician referrals for their patients and generally do not maintain dedicated, contractual relationships with hospitals or clinics. In fact, these facilities may compete with hospitals or clinics that have their own imaging systems to provide services to these patients. These facilities bill third-party payors, such as managed care organizations, insurance companies, Medicare or Medicaid. All of our wholly owned facilities are in this category.

### *Hospitals*

Many hospitals provide both inpatient and outpatient diagnostic imaging services, typically on site or at a dedicated center located on or nearby the hospital campus. These can be owned and operated by the hospital and provide imaging services to inpatients as ordered or outpatients through physician referrals. The hospital normally bills third-party payors such as managed care organizations, insurance companies, Medicare or Medicaid. We have entered into joint ventures with certain hospitals both provide and manage their diagnostic imaging services, allowing them to leverage our industry expertise.

### *Mobile Imaging*

While many hospitals own or lease their own equipment, certain hospitals provide diagnostic imaging services by contracting with providers of mobile imaging services. Using specially designed trailers, mobile imaging service providers transport imaging equipment and provide services to hospitals and clinics on a part-time or full-time basis, thus allowing small to mid-size hospitals and clinics that do not have the patient demand to justify fixed on-site access to advanced diagnostic imaging technology. Diagnostic imaging providers contract directly with the hospital or clinic and are typically reimbursed directly by them. We do not provide mobile imaging services.

## **Diagnostic Imaging Modalities**

The principal diagnostic imaging modalities we use at our facilities are:

### ***MRI***

MRI has become widely accepted as the standard diagnostic tool for a wide and fast-growing variety of clinical applications for soft tissue anatomy, such as those found in the brain, spinal cord, abdomen, heart and interior ligaments of body joints such as the knee. MRI uses a strong magnetic field in conjunction with low energy electromagnetic waves that are processed by a computer to produce high-resolution, three-dimensional, cross-sectional images of body tissue. A typical MRI examination takes from 20 to 45 minutes. MRI systems are designed as either open or closed and have magnetic field strength of 0.2 Tesla to 3.0 Tesla.

### ***CT***

CT provides higher resolution images than conventional X-rays, but generally not as well defined as those produced by MRI. CT uses a computer to direct the movement of an X-ray tube to produce multiple cross-sectional images of a particular organ or area of the body. CT is used to detect tumors and other conditions affecting bones and internal organs. It is also used to detect the occurrence of strokes, hemorrhages and infections. A typical CT examination takes from 15 to 45 minutes.

### ***PET***

PET scanning involves the administration of a radiopharmaceutical agent with a positron-emitting isotope and the measurement of the distribution of that isotope to create images for diagnostic purposes. PET scans provide the capability to determine how metabolic activity impacts other aspects of physiology in the disease process by correlating the reading for the PET with other tools such as CT or MRI. PET technology has been found highly effective and appropriate in certain clinical circumstances for the detection and assessment of tumors throughout the body, the evaluation of some cardiac conditions and the assessment of epilepsy seizure sites. The information provided by PET technology often obviates the need to perform further highly invasive or diagnostic surgical procedures. In addition, we employ combined PET/CT systems that blend the PET and CT imaging modalities into one scanner.

### ***Nuclear Medicine***

Nuclear medicine uses short-lived radioactive isotopes that release small amounts of radiation that can be recorded by a gamma camera and processed by a computer to produce an image of various anatomical structures or to assess the function of various organs such as the heart, kidneys, thyroid and bones. Nuclear medicine is used primarily to study anatomic and metabolic functions.

### ***X-ray***

X-rays use roentgen rays to penetrate the body and record images of organs and structures on film. Digital X-ray systems add computer image processing capability to traditional X-ray images, which provides faster transmission of images with a higher resolution and the capability to store images more cost-effectively.

### ***Ultrasound***

Ultrasound imaging uses sound waves and their echoes to visualize and locate internal organs. It is particularly useful in viewing soft tissues that do not X-ray well. Ultrasound is used in pregnancy to avoid X-ray exposure as well as in gynecological, urologic, vascular, cardiac and breast applications.

### ***Mammography***

Mammography is a specialized form of radiology using low dosage X-rays to visualize breast tissue and is the primary screening tool for breast cancer. Mammography procedures and related services assist in the diagnosis of and treatment planning for breast cancer.

### ***Fluoroscopy***

Fluoroscopy uses ionizing radiation combined with a video viewing system for real time monitoring of organs.



## ***Industry Trends***

We believe the diagnostic imaging services industry will continue to grow as a result of a number of factors, including the following:

### ***Escalating Demand for Healthcare Services from an Aging Population***

According to the United States Census Bureau estimates released in June 2020, the number of US residents age 65 or over increased from 35.0 million in 2000 to an estimated 73 million in 2020, and the median age for the United States is also expected to continue to increase. Because diagnostic imaging use tends to increase as a person ages, we believe the aging population will generate more demand for diagnostic imaging procedures.

### ***Greater Consumer Awareness of and Demand for Preventive Diagnostic Screening***

Diagnostic imaging, such as elective full-body scans, is increasingly being used as a screening tool for preventive care procedures. Consumer awareness of diagnostic imaging as a less invasive and preventive screening method has added to the growth in diagnostic imaging procedures. We believe that further technological advancements allowing for early diagnosis of diseases and disorders using less invasive procedures will create additional demand for diagnostic imaging.

### ***New Effective Applications for Diagnostic Imaging Technology***

New technological developments are expected to extend the clinical uses of diagnostic imaging technology and increase the number of scans performed. Recent technological advancements include:

- MRI spectroscopy, which can differentiate malignant from benign lesions;
- MRI angiography, which can produce three-dimensional images of body parts and assess the status of blood vessels;
- enhancements in teleradiology systems, which permit the digital transmission of radiological images from one location to another for interpretation by radiologists at remote locations,
- the development of combined PET/CT and PET/MRI scanners, which combine technologies to create a powerful diagnostic imaging system; and
- use of augmented reality technologies make it possible to create three dimensional images that physicians can examine through virtual reality headsets or print using a three dimensional printer.

Additional improvements in imaging technologies, contrast agents and scan capabilities are leading to new non-invasive diagnostic imaging application, including methods of diagnosing blockages in the heart's vital coronary arteries, liver metastases, pelvic diseases and vascular abnormalities without exploratory surgery. We believe that the use of the diagnostic capabilities of MRI and other imaging services will continue to increase because they are cost-effective, time-efficient and non-invasive, as compared to alternative procedures, including surgery, and that newer technologies and future technological advancements will further increase the use of imaging services. At the same time, the industry has increasingly used upgrades to existing equipment to expand applications, extend the useful life of existing equipment, improve image quality, reduce image acquisition time and increase the volume of scans that can be performed. We believe the use of equipment upgrades rather than equipment replacements will continue, as we do not foresee new imaging technologies on the near-term horizon that will displace MRI, CT or PET as the principal advanced diagnostic imaging modalities.

### ***Utilization of Artificial Intelligence***

AI has the potential to significantly change the medical imaging industry. Current AI applications are focused on comparing images against large databases and flagging areas of concern for the radiologist. This is expected to result in improved quality, particularly with diseases, injuries, or conditions that are difficult to detect without supplemental technology. AI can also improve business processes to better effectively serve customers and improve reimbursement and collections accuracy.

## **Our Competitive Strengths**

***Our Scale and Position as the Largest Provider of Freestanding, Fixed-site Outpatient Diagnostic Imaging Services in the United States, Based on Number of Centers and Revenue***

As of December 31, 2020, we operated 331 centers in Arizona, California, Delaware, Florida, Maryland, New Jersey, and New York. Our size and scale allow us to achieve operating, sourcing and administrative efficiencies, including equipment and medical supply sourcing savings and favorable maintenance contracts from equipment manufacturers and other suppliers. Our specific knowledge of our geographic markets drives strong relationships with key payors, radiology groups and referring physicians within our markets.

### ***Our Comprehensive “Multi-Modality” Diagnostic Imaging Offering***

The vast majority of our centers offer multiple types of imaging procedures, driving strong relationships with referring physicians and payors in our markets and a diversified revenue base. At each of our multi-modality facilities, we offer patients and referring physicians one location to serve their needs for multiple procedures. This prevents multiple patient visits or unnecessary travel between facilities, thereby increasing patient throughput and decreasing costs and time delays. Our revenue is generated by a broad mix of modalities. We believe our multi-modality strategy lessens our exposure to reimbursement changes in any specific modality.

### ***Our Competitive Pricing***

Our business focus, scale, resources and access to technology afford us with certain operating efficiencies. As such, we believe our fees are generally lower than hospital fees for the services we provide.

### ***Our Facility Density in Many Highly Populated Areas of the United States***

The strategic organization of our diagnostic imaging facilities into regional networks concentrated in major population centers in seven states offers unique benefits to our patients, our referring physicians, our payors and us. We are able to increase the convenience of our services to patients by implementing scheduling systems within geographic regions, where practical. For example, many of our diagnostic imaging facilities within a particular region can access the patient appointment calendars of other facilities within the same regional network to efficiently allocate time available and to meet a patient’s appointment, date, time, or location preferences. The grouping of our facilities within regional networks enables us to easily move technologists and other personnel, as well as equipment, from over-utilized to under-utilized facilities on an as-needed basis, and drive referrals. Our organization of referral networks results in increased patient throughput, greater operating efficiencies, better equipment utilization rates and improved response time for our patients. We believe our networks of facilities and tailored service offerings for geographic areas drive local physician referrals, make us an attractive candidate for selection as a preferred provider by third-party payors and create economies of scale.

### ***Our Strong Relationships with Payors and Diversified Payor Mix***

Our revenue is derived from a diverse mix of payors, including private payors, managed care capitated payors and government payors, which should mitigate our exposure to possible unfavorable reimbursement trends within any one payor class. In addition, our experience with capitation arrangements has provided us with the expertise to manage utilization and pricing effectively, resulting in a predictable and recurring stream of revenue. We believe that third-party payors representing large groups of patients often prefer to enter into managed care contracts with providers that offer a broad array of diagnostic imaging services at convenient locations throughout a geographic area. In 2020, we received approximately 54% of our net service revenue from commercial insurance payors, 13% from managed care capitated payors, 20% from Medicare and 2% from Medicaid.

### ***Our Strong Relationships with Experienced and Highly Regarded Radiologists***

Our contracted radiologists have outstanding credentials, strong relationships with referring physicians, and a broad mix of sub-specialties. The collective experience and expertise of these radiologists translates into more accurate and efficient service to patients. Our close relationship with Howard G. Berger, M.D., our President and Chief Executive Officer, and Beverly Radiology Medical Group (“BRMG”) in California and our long-term arrangements with radiologists outside of California enable us to better ensure that the medical service provided at our facilities is consistent with the needs and expectations of our referring physicians, patients and payors.

### ***Our Experienced and Committed Management Team***

Our senior management group has more than 100 years of combined healthcare management experience. Our executive management team has created our differentiated approach based on their comprehensive understanding of the diagnostic imaging industry and the dynamics of our regional markets. We have a track record of successful acquisitions and integration of acquired businesses into RadNet, and have managed the business through a variety of economic and reimbursement cycles.

## ***Our Technologically Advanced Operations***

In 2019, we created an Artificial Intelligence (AI) division that now hosts the combined efforts of our acquisitions of DeepHealth, Nulogix, and an equity investment in WhiteRabbit.ai. The division is currently focused on developing both improved medical interpretation of scans and patient management within the field of mammography. Combined with our established eRad subsidiary, which develops and sells computerized imaging systems for the industry, we have assembled an industry leading team of software developers to create radiology workflow solutions that improve patient care.

### **Business Strategy**

#### ***Maximize Performance at Our Existing Facilities***

We intend to enhance our operations and increase scan volume and revenue at our existing facilities by expanding physician relationships and increasing the procedure offerings.

#### ***Focus on Profitable Contracting***

We regularly evaluate our contracts with third-party payors, industry vendors and radiology groups, as well as our equipment and real property leases, to determine how we may improve the terms to increase our revenues and reduce our expenses. Because many of our contracts with third party payors are short-term in nature, we can regularly renegotiate these contracts, if necessary. We believe our position as a leading provider of diagnostic imaging services and our long-term relationships with physician groups in our markets enable us to obtain more favorable contract terms than would be available to smaller or less experienced imaging services providers.

#### ***Optimize Operating Efficiencies***

We try to maximize our equipment utilization by adding, upgrading and re-deploying equipment where we experience excess demand. We will continue to trim excess operating and general and administrative costs where it is feasible to do so. We may also continue to use, where appropriate, highly trained radiology physician assistants to perform, under appropriate supervision of radiologists, basic services traditionally performed by radiologists. We will continue to upgrade our advanced information technology system to create cost reductions for our facilities in areas such as image storage, support personnel and financial management.

#### ***Expand Our Networks***

We intend to continue to expand the number of our facilities both organically and through targeted acquisitions, using a disciplined approach for evaluating and entering new areas, including consideration of whether we have adequate financial resources to expand. Our current plans are to strengthen our market presence in geographic areas where we currently have existing operations and to expand into neighboring and other areas where we believe we can compete effectively. We perform extensive due diligence before developing a new facility or acquiring an existing facility or entering into a joint venture with a hospital to manage a facility, including surveying local referral sources and radiologists, as well as examining the demographics, reimbursement environment, competitive landscape and intrinsic demand of the geographic market. We generally will only enter new markets where:

- there is sufficient patient demand for outpatient diagnostic imaging services;
- we believe we can gain significant market share;
- we can build key referral relationships or we have already established such relationships; and
- payors are receptive to our entry into the market.

This was exemplified by our recent expansion into the Phoenix, Arizona marketplace which not only met our qualifications, but also strengthened our relationship with Dignity Health, forming our third outpatient radiology venture to manage the acquired imaging centers.

#### ***Expand Our Joint Ventures***

As part of our growth strategy we have entered into joint ventures with hospitals, health systems or radiology practices that were formed for the purpose of owning and operating diagnostic imaging centers. We have created a number of joint ventures in key markets with well-established hospital systems to manage additional facilities. We intend to continue to expand in established markets through additional joint ventures, particularly with hospital systems. We believe that such joint ventures strengthen and expand our strength in markets where we are already established.

## **Our Services**

We offer a comprehensive set of imaging services including MRI, CT, PET, nuclear medicine, X-ray, ultrasound, mammography, fluoroscopy and other related procedures. We focus on providing standardized high quality imaging services, regardless of location, to ensure patients, physicians and payors consistency in service and quality. To ensure the high quality of our services, we monitor patient satisfaction, timeliness of services to patients and reports to physicians.

The key features of our services include:

- patient-friendly, non-clinical environments;
- a 24-hour turnaround on routine examinations;
- interpretations within one to two hours, if needed;
- flexible patient scheduling, including same-day appointments;
- extended operating hours, including weekends;
- reports delivered by courier, facsimile or email;
- availability of second opinions and consultations;
- availability of sub-specialty interpretations at no additional charge; and
- standardized fee schedules by region.

## **Radiology Professionals**

In the states in which we provide services (except Florida), a lay person or any entity other than a professional corporation or similar professional organization is not allowed to practice medicine, including by employing professional persons or by having any ownership interest or profit participation in or control over any medical professional practice. This doctrine is commonly referred to as the prohibition on the “corporate practice” of medicine. In order to comply with this prohibition, we contract with radiologists to provide professional medical services in our facilities, including the supervision and interpretation of diagnostic imaging procedures. The radiology practice maintains full control over the physicians it employs. Pursuant to each management contract, we make available the imaging facility and all of the furniture and medical equipment at the facility for use by the radiology practice, and the practice is responsible for staffing the facility with qualified professional medical personnel. In addition, we provide management services and administration of the non-medical functions relating to the professional medical practice at the facility, including among other functions, provision of clerical and administrative personnel, bookkeeping and accounting services, billing and collection, provision of medical and office supplies, secretarial, reception and transcription services, maintenance of medical records, and advertising, marketing and promotional activities. As compensation for the services furnished under contracts with radiologists, we generally receive an agreed percentage of the medical practice billings for, or collections from, services provided at the facility, typically 79% of global net service fee revenue or collections after deduction of the professional component of the medical practice billings.

Many states have also enacted laws prohibiting a licensed professional from splitting fees derived from the practice of medicine with an unlicensed person or business entity. We do not believe that the management, administrative, technical and other non-medical services we provide to each of our contracted radiology groups violate the corporate practice of medicine prohibition or that the fees we charge for such services violate the fee splitting prohibition. However, the enforcement and interpretation of these laws by regulatory authorities and state courts vary from state to state. If our arrangements with our independent contractor radiology groups are found to violate state laws prohibiting the practice of medicine by general business corporations or fee splitting, our business, financial condition and ability to operate in those states could be adversely affected.

## ***The Consolidated Medical Group***

The consolidated medical group (“the Group”) consists of professional corporations owned or controlled by individuals within our senior management, namely Howard G. Berger, M.D., our President and Chief Executive Officer, and John V. Crues, III, M.D., RadNet’s Medical Director, both of whom are members of our Board of Directors. The Group provides professional medical services

in California, Delaware, Maryland, New Jersey and New York, and includes Beverly Radiology Medical Group (BRMG). BRMG is responsible for the professional medical services at nearly all of our facilities located in California.

We believe that physicians are drawn to the Group, and the other external radiologist groups with whom we contract, by the opportunity to work with the state-of-the-art equipment we make available to them, as well as the opportunity to receive specialized training through our fellowship programs, and engage in clinical research programs, which generally are available only in university settings and major hospitals.

Under our management agreement with BRMG, we are paid a percentage of the amounts collected for the professional services BRMG physicians render as compensation for our services and for the use of our facilities and equipment. For the year ended December 31, 2020, this percentage was 79%. The percentage may be adjusted, if necessary, to ensure that the parties receive fair value for the services they render. The following are the other principal terms of our management agreement with BRMG:

- The agreement expires on January 1, 2024. The agreement automatically renews for consecutive 10-year periods, unless either party delivers a notice of non-renewal to the other party no later than six months prior to the scheduled expiration date. Either party may terminate the agreement if the other party defaults under its obligations, after notice and an opportunity to cure. We may terminate the agreement if Dr. Berger no longer owns at least 60% of the equity of BRMG; as of December 31, 2020, he owned indirectly 99% of the equity interests of BRMG.
- At its expense, BRMG employs or contracts with an adequate number of physicians necessary to provide all professional medical services at almost all of our California facilities.
- At our expense, we provide all furniture, furnishings and medical equipment located at the facilities and we manage and administer all non-medical functions at, and provide all nurses and other non-physician personnel required for the operation of, the facilities.
- If BRMG wants to open a new facility, we have the right of first refusal to provide the space and services for the facility under the same terms and conditions set forth in the management agreement.
- If we want to open a new facility in California, BRMG must use its best efforts to provide medical personnel under the same terms and conditions set forth in the management agreement. If BRMG cannot provide such personnel, we have the right to contract with other physicians to provide services at the facility.
- BRMG must maintain medical malpractice insurance for each of its physicians with coverage limits not less than \$1 million per incident and \$3 million in the aggregate per year. BRMG also has agreed to indemnify us for any losses we suffer that arise out of the acts or omissions of BRMG and its employees, contractors and agents.

The management contracts with the remaining professional medical corporations within the Group are on a basis similar to our contract with BRMG.

### ***Other Professional Radiology Groups***

At locations where the Group does not provide professional medical services, we have entered into long-term contracts with prominent third-party radiology groups in the area to provide physician services at those facilities.

These third-party radiology practice groups provide professional services, including supervision and interpretation of diagnostic imaging procedures, in our diagnostic imaging centers. The radiology practices maintain full control over the provision of professional services. The contracted radiology practices have outstanding physician and practice credentials and reputations; strong competitive market positions; a broad sub-specialty mix of physicians; a history of growth and potential for continued growth. In these facilities we have entered into long-term agreements (typically 10-40 years in length) under which, in addition to obtaining technical fees for the use of our diagnostic imaging equipment and the provision of technical services, we provide management services and receive a fee based on the practice group's professional revenue. We typically receive 100% of the technical reimbursements associated with imaging procedures plus certain fees paid to us for providing additional management services. The radiology practice groups retain the professional reimbursements associated with imaging procedures after deducting management service fees paid to us.

Additionally, we perform certain management services for a portion of the professional groups with whom we contract who provide professional radiology services at local hospitals. For performing these management services, which include billing, collecting, transcription and medical coding, we receive management fees.

## Payors

The fees charged for diagnostic imaging services performed at our facilities are paid by a diverse mix of payors, as illustrated for the following periods presented in the table below:

	% of Net Service Fee Revenue		
	Year Ended December 31, 2020	Year Ended December 31, 2019	Year Ended December 31, 2018
Commercial Insurance <sup>(1)</sup>	54 %	56 %	56 %
Managed Care Capitated Payors	13 %	11 %	11 %
Medicare	20 %	21 %	20 %
Medicaid	2 %	2 %	3 %

<sup>(1)</sup> Includes co-payments, direct patient payments and payments through contracts with physician groups and other non-insurance company payors.

We have described below the types of reimbursement arrangements we have with third-party payors.

### *Commercial Insurance*

Generally, insurance companies reimburse us, directly or indirectly, including through the group or through the contracted radiology groups elsewhere, on the basis of agreed upon rates. These rates are negotiated and may differ materially with rates set forth in the Medicare Physician Fee Schedule for the particular service. The patients may be responsible for certain co-payments or deductibles.

### *Managed Care Capitation Agreements*

Under these agreements, which are generally between BRMG in California and outside of California between the contracted radiology group (typically an independent physician group or other medical group) and the payor (which in most cases are large medical groups or Independent Practice Associations), the payor pays a pre-determined amount per-member per-month in exchange for the radiology group providing all necessary covered services to the managed care members included in the agreement. These contracts pass much of the financial risk of providing outpatient diagnostic imaging services, including the risk of over-use, from the payor to the radiology group and, as a result of our management agreement with the radiology group, to us.

We believe that through our comprehensive utilization management, or UM, program we have become highly skilled at assessing and moderating the risks associated with the capitation agreements, so that these agreements are profitable for us. Our UM program is managed by our UM department, which consists of administrative and nursing staff as well as BRMG medical staff who are actively involved with the referring physicians and payor management in both prospective and retrospective review programs. Our UM program includes features such as physician education combined with peer review procedures which are designed to manage our costs while ensuring that patients receive appropriate care.

### *Medicare/Medicaid*

Medicare is the federal health insurance program for people age 65 or older and people under age 65 with certain disabilities. Medicaid, funded by both the federal government and states, is a state-administered health insurance program for qualifying low-income and medically needy persons. For services for which we bill Medicare directly or indirectly, including through contracted radiologists, we are paid under the Medicare Physician Fee Schedule. Under the Protecting Access to Medicare Act of 2014, Congress introduced a new quality incentive program that, effective January 1, 2016, reduces Medicare payments for certain CT services reimbursed through the Medicare Physician Fee Schedule that are furnished using equipment that does not meet certain dose optimization and management standards. Medicare patients usually pay a 20% co-payment unless they have secondary insurance. Medicaid rates are set by the individual states for each state program and Medicaid patients may be responsible for a modest co-payment.

### *Contracts with Physician Groups and Other Non-Insurance Company Payors*

For some of our contracts with physician groups and other providers, we do not bill payors, but instead accept agreed upon rates for our radiology services. These rates are typically at or below the rates set forth in the current Medicare Fee Schedule for the particular service. However, we often agree to a specified rate for MRI and CT procedures that is not tied to the Medicare Fee Schedule.

## Facilities

Our facilities are primarily located in geographic networks that we refer to as regions. The majority of our facilities are multi-modality sites, offering various combinations of MRI, CT, PET, nuclear medicine, ultrasound, X-ray, fluoroscopy services and other related procedures. A portion of our facilities are single-modality sites, offering either X-ray or MRI services. Consistent with our regional network strategy, we locate our single-modality facilities near multi-modality facilities, to help accommodate overflow in targeted demographic areas.

The following table sets forth the number of our facilities operated directly or managed through joint ventures for each year during the five-year period ended December 31, 2020:

	Years Ended December 31,				
	2016	2017	2018	2019	2020
<b>Total facilities owned or managed (at beginning of the year)</b>	300	305	297	344	335
Facilities added by:					
Acquisition	10	8	55	9	13
Internal development	8	4	5	4	4
Facilities closed or sold	(13)	(20)	(13)	(22)	(21)
<b>Total facilities owned or managed (at year end)</b>	<b>305</b>	<b>297</b>	<b>344</b>	<b>335</b>	<b>331</b>

## Diagnostic Imaging Equipment

The following table indicates, as of December 31, 2020, the quantity of principal diagnostic equipment available at our facilities operated directly or through joint venture investments:

Equipment Count	Years Ended December 31,		
	2020	2019	2018
MRI	293	288	273
CT	175	168	162
PET/CT	67	62	59
Mammography	315	303	289
Ultrasound	689	662	632
X-ray	376	343	308
Nuclear Medicine	57	50	53
Fluoroscopy	117	120	117
Total equipment	<b>2,089</b>	<b>1,996</b>	<b>1,893</b>

The average age of our MRI and CT units is less than five years, and the average age of our PET units is less than four years. The useful life of our MRI, CT and PET units is typically ten years.

## Facility Acquisitions

Information regarding our facility acquisitions can be found within Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations", as well as Note 4 to our consolidated financial statements included in this annual report on Form 10-K.

## Information Technology

Our corporate headquarters and many of our facilities are interconnected through a state-of-the-art information technology system. This system, which is compliant with the Health Insurance Portability and Accountability Act of 1996, is comprised of a number of integrated applications and provides a single operating platform for billing and collections, electronic medical records, practice management and image management.

This technology has created cost reductions for our facilities in areas such as image storage, support personnel and financial management and has further allowed us to optimize the productivity of all aspects of our business by enabling us to:

- capture patient demographic, history and billing information at point-of-service;
- automatically generate bills and electronically file claims with third-party payors;
- record and store diagnostic report images in digital format;
- digitally transmit in real-time diagnostic images from one location to another, thus enabling networked radiologists to cover larger geographic markets by using the specialized training of other networked radiologists;
- perform claims, rejection and collection analysis; and
- perform sophisticated financial analysis, such as analyzing cost and profitability, volume, charges, current activity and patient case mix, with respect to each of our managed care contracts.

We have developed our own Radiology Information System through our team of software development engineers, which is used as our front desk patient tracing system, and began running this internally developed system in the first quarter of 2015.

## Human Capital

We believe the strength of our workforce is critical to the success of our mission to provide comprehensive radiology solutions and change the future of healthcare. We are focused on attracting, retaining, and developing the talent we need to deliver on our commitment to our patients and partners. We invest in our employees to ensure their confidence and competence in their roles, as well as to provide a path for professional career development. We are keenly aware of the value of a diverse workforce and are proud of our track record. We further our objectives of inclusion by providing training and growth opportunities, market-competitive compensation and a responsive benefits plan to support the needs of our human capital.

We employ imaging center managers who are responsible for overseeing day-to-day and routine operations at each of our facilities, including staffing, modality and schedule coordination, referring physician and patient relations and purchasing of materials to effectively manage their location(s). These imaging center managers report to regional managers and/or directors, who are responsible for oversight of the operations of all facilities within their region, including sales, marketing and contracting. The regional managers and directors, along with our directors of contracting, marketing, facilities, management/purchasing and senior human resources leadership all report to our chief operating officers. These officers, our chief financial officer, our director of information services and our medical director report to our chief executive officer.

At December 31, 2020, we had a total of 6,157 full-time, 525 part-time and 1,645 per diem employees, including those employed by the Group. These numbers include 130 full-time and 51 part-time physicians and 2,033 full-time, 358 part-time and 1,089 per-diem technologists.

*Diversity and Inclusion.* Our culture of diversity and inclusion continues to enable us to exceed the expectations of our patients and meet our growth strategy. Our success in inclusion and diversity objectives are the result of strong leadership, transparency and accountability. While our workforce demographics clearly indicate our success in achieving a highly diverse team, in order to foster even stronger understanding of diversity, equity and inclusion, we have developed an internal education program to ensure all of our team are aware of our closely held values. Our initiatives include:

- Building a Harmonious Workforce – a three part training series aimed at education, awareness and sensitivity training for senior management, center level management and our team at large
- RadRecruit – training on best in class recruiting practices to ensure equity in the interview/hiring process and education regarding unconscious bias for our management team
- Corporate support and sponsorship of community outreach/enrichment programs for underserved population such as our ongoing and flourishing relationship with JVS SoCal.
- High School, Vocational School and Collegiate outreach
- The 2020 second quarter launch of RadNet Voices, an internal DE & I committee, sponsored by senior leadership, and comprised of a core members and rotating group of team members to capture and respond to team member experience.

Approximately 80% of the Company's workforce at December 31, 2020 was female and 49% were from under-represented groups. During the year ended December 31, 2020, our total attrition rate was less than 2%.



*Employee Development.* We continue to emphasize employee development and education. We provide a range of internal education and development programs and opportunities to support the advancement of our employees. RadNet offers Leadership Development and Operations Rotation Program, Management Training, Technical Scholarship, and various modality education and training support programs. We offer both formal and informal programs to identify, foster and retain top talent. Aside from our Tuition Reimbursement program which encourages professional development for our incumbent team, we also sponsor undergraduate and graduate education and advanced technical training (RPA) for various incumbent team members.

*Pay.* Our primary compensation strategy is to promote a pay-for-performance culture. Our guiding principles are anchored on the goals of being able to attract, incentivize, and retain talented employees. We provide compensation that is competitive and consistent with employee positions, skill levels, and experience. We align our executives' and eligible non-executive employees long-term equity compensation with our stockholders' interests. Our employees are eligible for benefits that are industry-leading, including PPO and HDHP medical plans with a company sponsored HSA, wellness plans that include financial incentives, free radiology procedures for team and family, paid life insurance and AD&D, dental, vision. Employee Assistance Plan (EAP) with enhanced mental health benefits, group paid long and short term disability plans, 401(k), tuition reimbursement, access to instant earned wages through DailyPay, paid and unpaid leave, flexible working schedule, and a variety of voluntary benefits including Colonial, Supplemental Life, Dependent Life and Commuter benefits and free flu vaccinations.

*Health and Wellness.* Beyond the fundamental needs of health, welfare and retirement programs, we are focused on the specific needs of our individual employees. In 2020, our employees adapted to an unprecedented amount of change and uncertainty driven by the COVID-19 pandemic, including rescheduled work priorities, and closure of schools and daycare facilities for families. We have continued to provide resources and ongoing support to employees facing these challenges throughout the year, such as a wellness incentives, home office setup allowance, expanded health coverage, and flexible work schedules. Additionally and as a result of many of our hospital and managed care partners we were able to provide access to COVID vaccinations for our patient facing healthcare workers first, then our lower risk but essential infrastructure team.

## **Sales and Marketing**

Our sales and marketing team employs a multi-pronged approach to marketing, including physician, payor and sports marketing programs, each of which are described below:

### ***Physician Marketing***

Each customer service representative on our physician marketing team is responsible for marketing activity on behalf of one or more facilities. The representatives act as a liaison between the facility and referring physicians, holding meetings periodically and on an as-needed basis with them and their staff to present educational programs on new applications and uses of our systems and to address particular patient service issues that have arisen. In our experience, consistent hands-on contact with a referring physician and his or her staff generates goodwill and increases referrals to our facilities. The representatives also continually seek to establish referral relationships with new physicians and physician groups. In addition to a base salary, each representative receives a bonus based upon success.

### ***Payor Marketing***

Our marketing team regularly meets with managed care organizations and insurance companies to solicit contracts and meet with existing contracting payors to solidify those relationships. The comprehensiveness of our services, the geographic location of our facilities and the reputation of the physicians with whom we contract all serve as tools for obtaining new or repeat business from payors.

### ***Sports Marketing Program***

Our west coast operations provide diagnostic digital X-ray services for the following organizations at their respective stadiums: Los Angeles Clippers, Dodgers, Lakers, Kings and Sparks and the USC Trojans football team. In exchange for these services the teams provide us with season tickets and parking. Contract lengths vary from yearly up to five years. We also provide radiology services at select imaging centers for the Anaheim Ducks, Los Angeles Angels, Los Angeles Rams, Oakland Athletics and San Francisco 49ers organizations.

Through our east coast operations, we have entered into sponsorship agreements with the Baltimore Ravens of the National Football League and the Baltimore Orioles of Major League Baseball which permits us to state we are the imaging partner to each organization. The sponsorship agreement with the Ravens lasts through 2022 and the Orioles through 2021.

## Suppliers

We acquire our major diagnostic imaging equipment directly from original equipment manufacturers or through third party financing companies and purchase medical supplies from various national vendors. We have excellent working relationships with our providers who are of comparable stature in the event one becomes unavailable.

Our diagnostic imaging equipment represents a cornerstone investment of the company as it provides our customers the latest in imaging technology. We employ direct purchase or finance arrangements to accomplish our needs with such firms as GE, Hologic, Key Equipment, Philips, Siemens and Spectrum. At December 31, 2020, our liabilities for financing arrangements for radiology equipment, inclusive of operating and finance leases, amounted to approximately \$58.9 million. If we open or acquire additional imaging facilities, we may incur material lease obligations. See Note 9, Leases, to our consolidated financial statements included in this annual report on Form 10-K for further information.

Timely and effective maintenance is essential for achieving high utilization rates of our imaging equipment. In order to ensure operational efficiency, we have maintenance arrangements with the various service arms of the original equipment manufacturers.

## Competition

Our competitors include independent imaging operators and smaller regional operators, as well as hospitals and hospital groups that operate their own imaging services. In addition, some physician practices have established their own diagnostic imaging facilities within their group practices. We experience additional competition as a result of those activities.

We compete principally on the basis of our reputation, our ability to provide multiple modalities at many of our facilities, the location of our facilities, the quality of our diagnostic imaging services and technologists and our ability to establish and maintain relationships with healthcare providers and referring physicians. See “Competitive Strengths” above. Some of our competitors may now or in the future have access to greater financial resources than we do, which could allow them to establish more facilities and provide access to newer, more advanced equipment.

Each of the third party contracted radiology practices has entered into agreements with its physician shareholders and full-time employed radiologists that generally prohibit those shareholders and radiologists from competing for a period of two to five years within defined geographic regions after they cease to be owners or employees, as applicable. In certain states, like California, a covenant not to compete is enforced in limited circumstances involving the sale of a business. In other states, a covenant not to compete will be enforced only:

- to the extent it is necessary to protect a legitimate business interest of the party seeking enforcement;
- if it does not unreasonably restrain the party against whom enforcement is sought; and
- if it is not contrary to public interest.

Enforceability of a non-compete covenant is determined by a court based on all of the facts and circumstances of the specific case at the time enforcement is sought. For this reason, it is not possible to predict whether or to what extent a court will enforce the contracted radiology practices’ covenants. The inability of the contracted radiology practices or us to enforce a radiologist’s non-compete covenants could result in increased competition from individuals who are knowledgeable about our business strategies and operations.

## Liability Insurance

We maintain insurance policies with coverage we believe is appropriate in light of the risks attendant to our business and consistent with industry practice. We maintain general liability insurance and professional liability insurance in commercially reasonable amounts. Additionally, we maintain workers’ compensation insurance on all of our employees. Coverage is placed on a statutory basis and corresponds to individual state’s requirements. However, adequate liability insurance may not be available to us in the future at acceptable costs or at all. In addition, insurers from which we purchase such insurance may experience financial hardship which would impact their ability to pay covered policyholder claims.

Pursuant to our agreements with physician groups with whom we contract, including the Group, each must maintain medical malpractice insurance for each physician in the group, having coverage limits of not less than \$1.0 million per incident and \$3.0 million in the aggregate per year.

California's medical malpractice cap further reduces our exposure. California places a \$250,000 limit on non-economic damages for medical malpractice cases. Non-economic damages are defined as compensation for pain, suffering, inconvenience, physical impairment, disfigurement and other non-pecuniary injury. The cap applies whether the case is for injury or death, and it allows only one \$250,000 recovery in a wrongful death case. No cap applies to economic damages. Other states in which we now operate do not have similar limitations and in those states we believe our insurance coverage to be sufficient.

## **Regulation**

### ***General***

The healthcare industry is highly regulated, and changes in the regulatory environment could significantly affect our operations in the future. Our ability to operate profitably will depend in part upon us, and the contracted radiology practices and their affiliated physicians, obtaining and maintaining all necessary licenses and other approvals, and operating in compliance with applicable healthcare regulations. We believe that healthcare regulations will continue to change. Therefore, we monitor developments in healthcare law and modify our operations from time to time as the business and regulatory environment changes.

### ***Licensing and Certification Laws***

Ownership, construction, operation, expansion and acquisition of diagnostic imaging facilities are subject to various federal and state laws, regulations and approvals concerning licensing of facilities and personnel. In addition, free-standing diagnostic imaging facilities that provide services not performed as part of a physician's office must meet Medicare requirements to be certified as an independent diagnostic testing facility before it can be authorized to bill the Medicare program.

### ***Corporate Practice of Medicine***

In the states in which we operate, other than Florida, a lay person or any entity other than a professional corporation or other similar professional organization is not allowed to practice medicine, including by employing professional persons or by having any ownership interest or profit participation in or control over any medical professional practice. The laws of such states also prohibit a lay person or a non-professional entity from exercising control over the medical judgments or decisions of physicians and from engaging in certain financial arrangements, such as splitting professional fees with physicians. We structure our relationships with the radiology practices, including the purchase of diagnostic imaging facilities, in a manner that we believe keeps us from engaging in the practice of medicine, exercising control over the medical judgments or decisions of the radiology practices or their physicians, or violating the prohibitions against fee-splitting.

### ***Medicare and Medicaid Fraud and Abuse – Federal Anti-kickback Statute***

During the year ended December 31, 2020, approximately 20% of our net service revenue generated at our diagnostic imaging centers was derived from federal government sponsored healthcare programs (Medicare) and 2% from state sponsored programs (Medicaid).

Federal law known as the Anti-kickback Statute prohibits the knowing and willful offer, payment, solicitation or receipt of any form of remuneration in return for, or to induce, (i) the referral of a person, (ii) the furnishing or arranging for the furnishing of items or services reimbursable under the Medicare, Medicaid or other governmental programs or (iii) the purchase, lease or order or arranging or recommending purchasing, leasing or ordering of any item or service reimbursable under the Medicare, Medicaid or other governmental programs. Noncompliance with the federal Anti-kickback Statute can result in exclusion from the Medicare, Medicaid or other governmental programs and civil and criminal penalties.

The Anti-kickback Statute is broad, and it prohibits many arrangements and practices that are lawful in businesses outside of the healthcare industry. To create better clarity, the Office of the Inspector General of the U.S. Department of Health and Human Services (OIG) has issued regulations as "safe harbor" guidelines which if met in form and substance, will assure healthcare providers that they will not be prosecuted for violation of the Anti-kickback Statute. The OIG issued a final rule on November 20, 2020, as part of the Regulatory Sprint to Coordinated Care initiative by the U.S. Department of Health and Human Services that, among other things, established new "safe harbors" under the Anti-kickback Statute for certain value-based compensation arrangements. Although full compliance with these provisions ensures against prosecution under the federal Anti-kickback Statute, the failure of a transaction or arrangement to fit within a specific safe harbor does not necessarily mean that the transaction or arrangement is illegal or that prosecution under the federal Anti-kickback Statute will be pursued.

Although some of our arrangements may not fall within a safe harbor, we believe that such business arrangements do not violate the Anti-kickback Statute because we are careful to structure them to reflect fair value and ensure that the reasons underlying our decision to enter into a business arrangement comport with reasonable interpretations of the Anti-kickback Statute. However, even though we continuously strive to comply with the requirements of the Anti-kickback Statute, liability under the Anti-kickback

Statute may still arise because of the intentions or actions of the parties with whom we do business. While we are not aware of any such intentions or actions, we have only limited knowledge regarding the intentions or actions underlying those arrangements. Conduct and business arrangements that do not fully satisfy one of these safe harbor provisions may result in increased scrutiny by government enforcement authorities such as the Office of the Inspector General.

#### ***Medicare and Medicaid Fraud and Abuse – Stark Law***

The Ethics in Patient Referral Act of 1989, commonly known as the Stark Law, prohibits a physician from referring Medicare patients to an entity providing designated health services in which the physician (or immediate family member) has an ownership or investment interest or with which the physician (or immediate family member) has entered into a compensation arrangement. The Stark Law also prohibits the entity from billing for any such prohibited referral. The penalties for violating the Stark Law include a prohibition on payment by these governmental programs and civil penalties of as much as \$15,000 for each violation referral and \$100,000 for participation in a circumvention scheme. The regulations governing the Stark Law were also recently amended as part of the Regulatory Sprint to Coordinated Care initiative. These new regulations, which among other things establish new exceptions for value-based arrangements, were published by the Centers for Medicare & Medicaid Services (CMS) on November 20, 2020. We believe that, although we receive fees under our service agreements for management and administrative services, we are not in a position to make or influence referrals of patients.

Under the Stark Law, radiology and certain other imaging services and radiation therapy services and supplies are services included in the designated health services subject to the self-referral prohibition. Such services include the professional and technical components of any diagnostic test or procedure using X-rays, ultrasound or other imaging services, CT, MRI, radiation therapy and diagnostic mammography services (but not screening mammography services). PET and nuclear medicine procedures are also included as designated health services under the Stark Law. The Stark Law, however, excludes from designated health services: (i) X-ray, fluoroscopy or ultrasound procedures that require the insertion of a needle, catheter, tube or probe through the skin or into a body orifice; (ii) radiology procedures that are integral to the performance of, and performed during, non-radiological medical procedures; and (iii) invasive or interventional radiology, because the radiology services in these procedures are merely incidental or secondary to another procedure that the physician has ordered.

The Stark Law provides that a request by a radiologist for diagnostic radiology services or a request by a radiation oncologist for radiation therapy, if such services are furnished by or under the supervision of such radiologist or radiation oncologist pursuant to a consultation requested by another physician, does not constitute a referral by a referring physician. If such requirements are met, the Stark Law self-referral prohibition would not apply to such services. The effect of the Stark Law on the radiology practices, therefore, will depend on the precise scope of services furnished by each such practice's radiologists and whether such services derive from consultations or are self-generated.

We believe that, other than self-referred patients, all of the services covered by the Stark Law provided by the contracted radiology practices derive from requests for consultation by non-affiliated physicians. Therefore, we believe that the Stark Law is not implicated by the financial relationships between our operations and the contracted radiology practices. In addition, we believe that we have structured our acquisitions of the assets of existing practices, and we intend to structure any future acquisitions, so as not to violate the Anti-kickback Statute, Stark Law and the regulations related to these laws. Specifically, we believe the consideration paid by us to physicians to acquire the tangible and intangible assets associated with their practices is consistent with fair value in arms' length transactions and is not intended to induce the referral of patients or other business generated by such physicians. Should any such practice be deemed to constitute an arrangement designed to induce the referral of Medicare or Medicaid patients, then our acquisitions could be viewed as possibly violating anti-kickback and anti-referral laws and regulations. A determination of liability under any such laws could have a material adverse effect on our business, financial condition and results of operations.

#### ***Medicare and Medicaid Fraud and Abuse – General***

The federal government embarked on an initiative to audit all Medicare carriers, which are the companies that adjudicate and pay Medicare claims. These audits are expected to intensify governmental scrutiny of individual providers. An unsatisfactory audit of any of our diagnostic imaging facilities or contracted radiology practices could result in any or all of the following: significant repayment obligations, exclusion from Medicare, Medicaid or other governmental programs, and civil and criminal penalties.

Federal regulatory and law enforcement authorities have increased enforcement activities with respect to Medicare and Medicaid fraud and abuse regulations and other reimbursement laws and rules, including laws and regulations that govern our activities and the activities of the radiology practices. The federal government also has increased funding to fight healthcare fraud and is coordinating its enforcement efforts among various agencies, such as the U.S. Department of Justice, the U.S. Department of Health and Human Services Office of Inspector General, and state Medicaid fraud control units. The government may investigate our or the radiology practices' activities, claims may be made against us or the radiology practices and these increased enforcement activities may directly or indirectly have an adverse effect on our business, financial condition and results of operations.

### ***State Anti-kickback and Physician Self-referral Laws***

Many states have adopted laws similar to the federal Anti-kickback Statute and the Stark Law. Some of these state prohibitions apply to services and the referral of patients for healthcare services reimbursed by any source, not only the Medicare and Medicaid programs. Although we believe that we comply with both federal and state anti-kickback laws and self-referral laws, any finding of a violation of these laws could subject us to criminal and civil penalties or possible exclusion from federal or state healthcare programs. Such penalties would adversely affect our financial performance and our ability to operate our business.

### ***Federal False Claims Act***

The federal False Claims Act provides, in part, that the federal government may bring a lawsuit against any person who it believes has knowingly presented, or caused to be presented, a false or fraudulent request for payment from the federal government, or who has made a false statement or used a false record to get a claim approved. The federal False Claims Act further provides that a lawsuit thereunder may be initiated in the name of the United States by an individual, a “whistleblower,” who is an original source of the allegations. The government has taken the position that claims presented in violation of the federal Anti-kickback Statute or Stark Law may be considered a violation of the federal False Claims Act. Penalties include civil penalties of not less than \$5,500 and not more than \$11,000 for each false claim, plus three times the amount of damages that the federal government sustained because of the act of that person.

Further, states are being encouraged to adopt false claims acts similar to the federal False Claims Act, which establish liability for submission of fraudulent claims to the State Medicaid program and contain whistleblower provisions. Even in instances when a whistleblower action is dismissed with no judgment or settlement, we may incur substantial legal fees and other costs relating to an investigation. Future actions under the False Claims Act may result in significant fines and legal fees, which would adversely affect our financial performance and our ability to operate our business.

We believe that we are in compliance with the rules and regulations that apply to the federal False Claims Act as well as its state counterparts.

### ***Healthcare Reform Legislation***

Healthcare reform legislation enacted in the first quarter of 2010 by the Patient Protection and Affordable Care Act or PPACA, specifically requires the U.S. Department of Health and Human Services, in computing physician practice expense relative value units, to increase the equipment utilization factor for advanced diagnostic imaging services (such as MRI, CT and PET) from a presumed utilization rate of 50% to 65% for 2010 through 2012, 70% in 2013, and 75% thereafter. Excluded from the adjustment is low-technology imaging modalities such as ultrasound, X-ray and fluoroscopy. The Health Care and Education Reconciliation Act of 2010 (H.R. 4872), or Reconciliation Act, which was passed by the Senate and approved by the President on March 30, 2010, amends the provision for higher presumed utilization of advanced diagnostic imaging services to a presumed rate of 75%. The higher utilization rate was fully implemented in the beginning of 2011 and replaced the phase-in approach provided in the PPACA. This utilization rate was further increased to 90% by the American Taxpayer Relief Act of 2012 (“ATRA”), effective as of January 1, 2014.

The aim of increased utilization of diagnostic imaging services is to spread the cost of the equipment and services over a greater number of scans, resulting in a lower cost per scan. These changes have precipitated reductions in federal reimbursement for medical imaging and have resulted in decreased revenue for the scans we perform for Medicare beneficiaries. Other changes in reimbursement for services rendered by Medicare Advantage plans may also reduce the revenues we receive for services rendered to Medicare Advantage enrollees.

On December 22, 2017, President Trump signed into law the Tax Cuts and Jobs Act (the “Tax Act”). Among numerous changes to the tax code, the Tax Act repealed the individual mandate tax penalty (the “Individual Mandate”), a PPACA provision that required individuals to pay additional taxes if he or she was uninsured during the year.

Repeal of the Individual Mandate may lead to more people being uninsured, and could raise premium rates for insured persons. Such a development could affect reimbursement, coverage, and utilization of diagnostic imaging services in ways that are currently unpredictable. Other changes to the PPACA (whether through legislation or judicial action), including further rollbacks or full repeal of the PPACA being sought by congressional and state members of the Republican Party, or expansion of the PPACA (including, but not limited to, the development of a “public option” that would compete with private insurers to offer coverage to both individuals and those with employer sponsored insurance) being sought by the Biden Administration, could have similarly unpredictable effects.

## ***Health Insurance Portability and Accountability Act of 1996***

Congress enacted the Health Insurance Portability and Accountability Act of 1996, or HIPAA, in part, to combat healthcare fraud and to protect the privacy and security of patients' individually identifiable healthcare information. HIPAA, among other things, amends existing crimes and criminal penalties for Medicare fraud and enacts new federal healthcare fraud crimes, including actions affecting non-government healthcare benefit programs. Under HIPAA, a healthcare benefit program includes any private plan or contract affecting interstate commerce under which any medical benefit, item or service is provided. A person or entity that knowingly and willfully obtains the money or property of any healthcare benefit program by means of false or fraudulent representations in connection with the delivery of healthcare services is subject to a fine or imprisonment, or potentially both. In addition, HIPAA authorizes the imposition of civil money penalties against entities that employ or enter into contracts with excluded Medicare or Medicaid program participants if such entities provide services to federal health program beneficiaries. A finding of liability under HIPAA could have a material adverse effect on our business, financial condition and results of operations.

Further, HIPAA requires healthcare providers and their business associates to maintain the privacy and security of individually identifiable protected health information ("PHI"). HIPAA imposes federal standards for electronic transactions, for the security of electronic health information and for protecting the privacy of PHI. The Health Information Technology for Economic and Clinical Health Act of 2009 ("HITECH"), signed into law on February 17, 2009, dramatically expanded, among other things, (1) the scope of HIPAA to now apply directly to "business associates," or independent contractors who receive or obtain PHI in connection with providing a service to a covered entity, (2) substantive security and privacy obligations, including new federal security breach notification requirements to affected individuals, DHHS and prominent media outlets, of certain breaches of unsecured PHI, (3) restrictions on marketing communications and a prohibition on covered entities or business associates from receiving remuneration in exchange for PHI, and (4) the civil and criminal penalties that may be imposed for HIPAA violations, increasing the annual cap in penalties from \$25,000 to \$1.5 million per year.

In addition, many states have enacted comparable privacy and security statutes or regulations that, in some cases, are more stringent than HIPAA requirements. In those cases it may be necessary to modify our operations and procedures to comply with the more stringent state laws, which may entail significant and costly changes for us. We believe that we are in compliance with such state laws and regulations. However, if we fail to comply with applicable state laws and regulations, we could be subject to additional sanctions.

We believe that we are in compliance with the current HIPAA requirements, as amended by HITECH, and comparable state laws, but we anticipate that we may encounter certain costs associated with future compliance. Moreover, we cannot guarantee that enforcement agencies or courts will not make interpretations of the HIPAA standards that are inconsistent with ours, or the interpretations of our contracted radiology practices or their affiliated physicians. A finding of liability under the HIPAA standards may result in significant criminal and civil penalties. Noncompliance also may result in exclusion from participation in government programs, including Medicare and Medicaid. These actions could have a material adverse effect on our business, financial condition, and results of operations.

## ***U.S. Food and Drug Administration or FDA***

The FDA has issued the requisite pre-market approval for all of the MRI and CT systems we use.

Our mammography systems are regulated by the FDA pursuant to the Mammography Quality Standards Act of 1992, as amended by the Mammography Quality Standards Reauthorization Acts of 1998 and 2004 (collectively, the "MQSA"). All mammography facilities are required to meet the applicable MQSA requirements, including quality standards, be accredited by an approved accreditation body or state agency and certified by the FDA or an FDA-approved certifying state agency. Pursuant to the accreditation process, each facility providing mammography services must comply with certain standards that include, among other things, annual inspection of the facility's equipment, personnel (interpreting physicians, technologists and medical physicists) and practices.

Compliance with these MQSA requirements and standards is required to obtain Medicare payment for services provided to beneficiaries and to avoid various sanctions, including monetary penalties, or suspension of certification. Although the Mammography Accreditation Program of the American College of Radiology is an approved accreditation body and currently accredits all of our facilities which provide mammography services, and although we anticipate continuing to meet the requirements for accreditation, if we lose such accreditation, the FDA could revoke our certification. Congress has extended Medicare benefits to include coverage of screening mammography but coverage is subject to the facility performing the mammography meeting prescribed quality standards described above. The Medicare requirements to meet the standards apply to diagnostic mammography and image quality examination as well as screening mammography.

### ***Radiologist Licensing***

The radiologists providing professional medical services at our facilities are subject to licensing and related regulations by the states in which they provide services. As a result, we require the radiology groups with which we contract to require those radiologists to have and maintain appropriate licensure. We do not believe that such laws and regulations will either prohibit or require licensure approval of our business operations, although no assurances can be made that such laws and regulations will not be interpreted to extend such prohibitions or requirements to our operations.

### ***Insurance Laws and Regulation***

States in which we operate have adopted certain laws and regulations affecting risk assumption in the healthcare industry, including those that subject any physician or physician network engaged in risk-based managed care to comply with applicable insurance laws and regulations. These laws and regulations may require physicians and physician networks to meet minimum capital requirements and other safety and soundness requirements. Implementing additional regulations or compliance requirements could result in substantial costs to the contracted radiology practices, limiting their ability to enter into capitated or other risk-sharing managed care arrangements and indirectly affecting our revenue from the contracted practices.

### ***U.S. Federal Budget***

We derive a substantial portion of our revenue from direct billings to governmental healthcare programs, such as Medicare and Medicaid, and private health insurance companies and/or health plans, including but not limited to those participating in the Medicare Advantage program. As a result, any negative changes in governmental capitation or fee-for-service rates or methods of reimbursement for the services we provide could have a significant adverse impact on our revenue and financial results.

Because governmental healthcare programs generally reimburse on a fee schedule basis rather than on a charge-related basis, we generally cannot increase our revenues from these programs by increasing the amount of charges for services. Moreover, if our costs increase, we may not be able to recover our increased costs from these programs. Government and private payors have taken and may continue to take steps to control the cost, eligibility for, use, and delivery of healthcare services as a result of budgetary constraints, cost containment pressures and other reasons. We believe that these trends in cost containment will continue. These cost containment measures, and other market changes in non-governmental insurance plans have generally restricted our ability to recover, or shift to non-governmental payors, any increased costs that we experience. Our integrated care business and financial operations may be materially affected by these developments.

### ***Environmental Matters***

The facilities we operate or manage generate hazardous and medical waste subject to federal and state requirements regarding handling and disposal. We believe that the facilities that we operate and manage are currently in compliance in all material respects with applicable federal, state and local statutes and ordinances regulating the handling and disposal of such materials. We do not believe that we will be required to expend any material additional amounts in order to remain in compliance with these laws and regulations or that compliance will materially affect our capital expenditures, earnings or competitive position.

### ***Compliance Program***

We maintain a program to monitor compliance with federal and state laws and regulations applicable to healthcare entities. We have a compliance officer who is charged with implementing and supervising our compliance program, which includes the adoption of (i) Standards of Conduct for our employees and affiliates and (ii) a process that specifies how employees, affiliates and others may report regulatory or ethical concerns to our compliance officer. We believe that our compliance program meets the relevant standards provided by the Office of Inspector General of the Department of Health and Human Services.

An important part of our compliance program consists of conducting periodic audits of various aspects of our operations and that of the contracted radiology practices. We also conduct mandatory educational programs designed to familiarize our employees with the regulatory requirements and specific elements of our compliance program.

**Item 1A. Risk Factors**

**Risks Related to Our Operations and Third-Party Relationships**

***If our contracted radiology practices terminate their agreements with us, our business could substantially diminish.***

Our relationship with professional corporations contracted to provide medical services is an integral part of our business. These professional corporations must use their best efforts to provide medical services at any new facilities that we open or acquire in their areas of operation. In addition, these professional corporation's strong relationships with referring physicians are largely responsible for the revenue generated at the facilities they service. Although our management agreements are for multiple years, the radiology groups have the right to terminate the agreements if we default on our obligations and fail to cure the default. Also, the various radiology groups' ability to continue performing under the management agreements may be curtailed or eliminated due to the groups' financial difficulties, loss of physicians or other circumstances. If the radiology groups cannot perform their obligations to us, we would need to contract with one or more other radiology groups to provide the professional medical services at the facilities serviced by the group. We may not be able to locate radiology groups willing to provide those services on terms acceptable to us, if at all. Even if we were able to do so, any replacement radiology group's relationships with referring physicians may not be as extensive as those of the terminated group. In any such event, our business could be seriously harmed. In addition, the radiology groups are party to substantially all of the managed care contracts from which we derive revenue. If we were unable to readily replace these contracts, our revenue would be negatively affected.

***Our ability to generate revenue depends in large part on referrals from physicians.***

We derive substantially all of our net revenue, directly or indirectly, from fees charged for the diagnostic imaging services performed at our facilities. We depend on referrals of patients from unaffiliated physicians and other third parties who have no contractual obligations to refer patients to us for a substantial portion of the services we perform. If a sufficiently large number of these physicians and other third parties were to discontinue referring patients to us, our scan volume could decrease, which would reduce our net revenue and operating margins. Further, commercial third-party payors have implemented programs that could limit the ability of physicians to refer patients to us. For example, prepaid healthcare plans, such as health maintenance organizations, sometimes contract directly with providers and require their enrollees to obtain these services exclusively from those providers. Some insurance companies and self-insured employers also limit these services to contracted providers. These "closed panel" systems are now common in the managed care environment. Other systems create an economic disincentive for referrals to providers outside the system's designated panel of providers. If we are unable to compete successfully for these managed care contracts, our results and prospects for growth could be adversely affected.

***If our contracted radiology practices, including the Group, lose a significant number of their radiologists, our financial results could be adversely affected.***

At times, there has been a shortage of qualified radiologists in some of the regional markets we serve. In addition, competition in recruiting radiologists may make it difficult for our contracted radiology practices to maintain adequate levels of radiologists. If a significant number of radiologists terminate their relationships with our contracted radiology practices and those radiology practices cannot recruit sufficient qualified radiologists to fulfill their obligations under our agreements with them, our ability to maximize the use of our diagnostic imaging facilities and our financial results could be adversely affected. Increased expenses for the Group will impact our financial results because the management fee we receive from them, which is based on a percentage of their collections, is adjusted annually to take into account their expenses as applicable. Neither we, nor our contracted radiology practices, maintain insurance on the lives of any affiliated physicians.

***We may become subject to professional malpractice liability, which could be costly and negatively impact our business.***

The physicians employed by our contracted radiology practices are from time to time subject to malpractice claims. We structure our relationships with the practices under our management agreements in a manner that we believe does not constitute the practice of medicine by us or subject us to professional malpractice claims for acts or omissions of physicians employed by the contracted radiology practices. Nevertheless, claims, suits or complaints relating to services provided by the contracted radiology practices have been asserted against us in the past and may be asserted against us in the future. In addition, we may be subject to professional liability claims, including, without limitation, for improper use or malfunction of our diagnostic imaging equipment or for accidental contamination or injury from exposure to radiation. We may not be able to maintain adequate liability insurance to protect us against those claims at acceptable costs or at all.

Historically, we have sought to manage this risk of loss by, among other things, purchasing professional liability insurance. However, the insurer from which we purchased such insurance for the period ending July 15, 2017, Fairway Physicians Insurance Company, A Risk Retention Group ("Fairway"), experienced financial hardship. As a result, on August 29, 2017, the District of



Columbia Department of Insurance, Securities and Banking (“DISB”) found that Fairway was statutorily insolvent and that its continued operation would be hazardous to its policyholders, creditors and the general public. On October 25, 2017, the Superior Court for the District of Columbia issued an order authorizing the DISB Commissioner to liquidate Fairway. Fairway’s liquidation is currently pending, and it is presently unknown whether the Fairway liquidation estate will be able to pay covered policyholder claims, including claims asserted against us.

Any claim made against us that is not fully covered by insurance could be costly to defend, result in a substantial damage award against us and divert the attention of our management from our operations, all of which could have an adverse effect on our financial performance. In addition, successful claims against us may adversely affect our business or reputation. Although California places a \$250,000 limit on non-economic damages for medical malpractice cases, no limit applies to economic damages and no such limits exist in the other states in which we provide services.

***We may not receive payment from some of our healthcare provider customers because of their financial circumstances.***

Some of our healthcare provider customers do not have significant financial resources, liquidity or access to capital. If these customers experience financial difficulties they may be unable to pay us for the equipment and services that we provide. A significant deterioration in general or local economic conditions could have a material adverse effect on the financial health of certain of our healthcare provider customers. As a result, we may have to increase the amounts of accounts receivables that we write-off, which would adversely affect our financial condition and results of operations.

***Capitation fee arrangements could reduce our operating margins.***

For the year ended December 31, 2020, we derived approximately 13% of our total net revenue from capitation arrangements, and we intend to increase the revenue we derive from capitation arrangements in the future. Under capitation arrangements, the payor pays a pre-determined amount per-patient per-month in exchange for us providing all necessary covered services to the patients covered under the arrangement. These contracts pass much of the financial risk of providing diagnostic imaging services, including the risk of over-use, from the payor to the provider. Our success depends in part on our ability to negotiate effectively, on behalf of the contracted radiology practices and our diagnostic imaging facilities, contracts with health maintenance organizations, employer groups and other third-party payors for services to be provided on a capitated basis and to efficiently manage the utilization of those services. If we are not successful in managing the utilization of services under these capitation arrangements or if patients or enrollees covered by these contracts require more frequent or extensive care than anticipated, we would incur unanticipated costs not offset by additional revenue, which would reduce operating margins.

***Changes in the method or rates of third-party reimbursement could have a negative impact on our results***

From time to time, changes designed to contain healthcare costs have been implemented, some of which have resulted in decreased reimbursement rates for diagnostic imaging services that impact our business.

On August 4, 2020, CMS released the 2021 Medicare Physician Fee Schedule proposed rules, which proposed significant payment reductions effective January 1, 2021 for radiology services as a result of a proposed new coding structure for the office/outpatient evaluation and management (E/M) and statutorily mandated budget neutrality rules. While the Consolidated Appropriations Act, 2021 (H.R. 133), enacted on December 27, 2020, mitigated the reimbursement cuts for 2021, H.R. 133 does not completely eliminate the cuts and only reduces their impact for 2021. Moreover, absent further and more permanent intervention from Congress, CMS could propose and impose similar or more significant reimbursement cuts in the years ahead, thus negatively impacting our revenue.

***Disruption or malfunction in our information systems could adversely affect our business.***

We rely on information technology systems to process, transmit and store electronic information. A significant portion of the communication between personnel, customers, business partners, and suppliers depends on information technology. We rely on our information systems to perform functions critical to our ability to operate, including patient scheduling, billing, collections, image storage and image transmission. We also use information technology systems and networks in our operations and supporting departments such as marketing, accounting, finance, and human resources. The future success and growth of our business depends on streamlined processes made available through information systems, global communications, internet activity and other network processes.

Our information technology systems, and those of our third-party service providers, have been and may again in the future be vulnerable to information security breaches, acts of vandalism, computer viruses and interruption or loss of valuable business data. Our information technology system is vulnerable to damage or interruption from:

- earthquakes, fires, floods and other natural disasters;
- power losses, computer systems failures, internet and telecommunications or data network failures, operator negligence, improper operation by or supervision of employees, physical and electronic losses of data and similar events; and
- computer viruses, penetration by hackers seeking to disrupt operations or misappropriate information and other breaches of security.

We have technology security initiatives and disaster recovery plans in place to mitigate our risk to these vulnerabilities, but these measures may not be adequate or implemented properly to ensure that our operations are not disrupted or that data security breaches do not occur.

We suffered an unauthorized access to our network and could again face attempts by others to gain unauthorized access through the Internet or to introduce malicious software to our information technology systems. If a malicious hacker gained unauthorized access to our systems and network, it could have a material adverse impact on our business or operations. Such incidents, whether or not successful, could result in our incurring significant costs related to, for example, rebuilding internal systems, defending against litigation, responding to regulatory inquiries or actions, paying damages, or taking other remedial steps with respect to third parties. In addition, these threats are constantly changing, thereby increasing the difficulty of successfully defending against them or implementing adequate preventive measures. Accordingly, an extended interruption in our information technology system's function could significantly curtail, directly and indirectly, our ability to conduct our business and generate revenue.

If our network was compromised, it could give rise to unwanted media attention, materially damage our payor and physician relationships, harm our business, reputation, results of operations, cash flows and financial condition, result in fines or lawsuits, and may increase the costs we incur to protect against such information security breaches, such as increased investment in technology, the costs of compliance with consumer protection laws and costs resulting from consumer fraud. While we maintain cyber liability insurance, our insurance may not be sufficient to protect against all losses we may incur if we suffer significant or multiple attacks.

***Technological change in our industry could reduce the demand for our services and require us to incur significant costs to upgrade our equipment.***

The development of new technologies or refinements of existing modalities may require us to upgrade and enhance our existing equipment before we may otherwise intend. Many companies currently manufacture diagnostic imaging equipment. Competition among manufacturers for a greater share of the diagnostic imaging equipment market may result in technological advances in the speed and imaging capacity of new equipment. This may accelerate the obsolescence of our equipment, and we may not have the financial ability to acquire the new or improved equipment and may not be able to maintain a competitive equipment base. In addition, advances in technology may enable physicians and others to perform diagnostic imaging procedures without us. If we are unable to deliver our services in the efficient and effective manner that payors, physicians and patients expect our revenue could substantially decrease.

### **Risks Related to Our Ability to Grow Our Business**

***We face various risks related to health epidemics and other outbreaks, which may have a material adverse effect on our business, financial condition, results of operations and cash flows.***

We face various risks related to health epidemics and other outbreaks, including the global outbreak of COVID-19. the COVID-19 pandemic, changes in patient behavior related to illness, pandemic fears and market downturns, and restrictions intended to slow the spread of COVID-19, including quarantines, government-mandated actions, stay-at-home orders and other restrictions, have led to disruption of our business and volatility in the global capital markets. The United States government has taken steps to attempt to mitigate some of the more severe anticipated effects of the COVID-19 pandemic, including the passage of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). Additionally, we have received some funding from the U.S. Department of Health & Human Services under the CARES Act's Public Health and Social Services Emergency Fund (PHSSEF), which is geared towards supporting healthcare related expenses or lost revenue attributable to COVID-19. Nonetheless, no assurance that such types of measures and funding whether already enacted or to be enacted, including H.R. 133, will be effective or achieve their desired results in a timely fashion, including as it relates to our business operations. Moreover, while we believe we are in compliance with the applicable terms and conditions of funding under PHSSEF, compliance-related guidance for the program remains in process, and we may face enforcement risk if we are found to have failed to comply with such terms and conditions.

If significant portions of our workforce are unable to work effectively as a result of the COVID-19 pandemic, including because of illness, quarantines, facility closures, ineffective remote work arrangements or technology failures or limitations, our operations would be adversely impacted.

We currently believe our results of operations will continue to be negatively impacted by these developments. In addition, changes to statutes, regulations or regulatory policies or practices as a result of, or in response to COVID-19, could affect us in substantial and unpredictable ways. Given the many uncertainties and far-reaching consequences of potential developments, we cannot assure that the COVID-19 outbreak and the many related impacts will not require extended or additional diagnostic center closures and other disruptions to our business or will not materially and adversely affect our business, results of operations and financial condition for significant periods of time moving forward.

***Pressure to control healthcare costs could have a negative impact on our results.***

One of the principal objectives of health maintenance organizations and preferred provider organizations is to control the cost of healthcare services. Healthcare providers participating in managed care plans may be required to refer diagnostic imaging tests to certain providers depending on the plan in which a covered patient is enrolled. In addition, managed care contracting has become very competitive, and reimbursement schedules are at or below Medicare reimbursement levels. The expansion of health maintenance organizations, preferred provider organizations and other managed care organizations within the geographic areas covered by our network could have a negative impact on the utilization and pricing of our services, because these organizations will exert greater control over patients' access to diagnostic imaging services, the selections of the provider of such services and reimbursement rates for those services.

***We experience competition from other diagnostic imaging companies and hospitals, and this competition could adversely affect our revenue and business.***

The market for diagnostic imaging services is highly competitive. We compete for patients principally on the basis of our reputation, our ability to provide multiple modalities at many of our facilities, the location of our facilities and the quality of our diagnostic imaging services. We compete locally with groups of radiologists, established hospitals, clinics and other independent organizations that own and operate imaging equipment. Our competitors include independent imaging operators, such as Alliance Healthcare and smaller regional operators, as well as hospitals and hospital groups that operate their own imaging services. Some of our competitors may now or in the future have access to greater financial resources than we do and may have access to newer, more advanced equipment. In addition, some physician practices have established their own diagnostic imaging facilities within their group practices and compete with us. We are experiencing increased competition as a result of such activities, and if we are unable to successfully compete, our business and financial condition would be adversely affected.

***Our success depends in part on our key personnel and loss of key executives could adversely affect our operations. In addition, former employees and radiology practices we have previously contracted with could use the experience and relationships developed while employed or under contract with us to compete with us.***

Our success depends in part on our ability to attract and retain qualified senior and executive management, and managerial and technical personnel. Competition in recruiting these personnel may make it difficult for us to continue our growth and success. The loss of their services or our inability in the future to attract and retain management and other key personnel could hinder the implementation of our business strategy. The loss of the services of Dr. Howard G. Berger, our President and Chief Executive Officer, and Norman R. Hames or Stephen M. Forthuber, our Chief Operating Officers, West Coast and East Coast, respectively, could have a significant negative impact on our operations. We believe that they could not easily be replaced with executives of equal experience and capabilities. Additionally, if we lose the services of Dr. Berger, our relationship with BRMG could deteriorate, which would materially adversely affect our business.

Many of the states in which we operate do not enforce agreements that prohibit a former employee from competing with a former employer. As a result, many of our employees whose employment is terminated are free to compete with us, subject to prohibitions on the use of trade secret information and, depending on the terms of the employee's employment agreement, on solicitation of existing employees and customers (if enforceable). A former executive, manager or other key employee who joins one of our competitors could use the relationships he or she established with third party payors, radiologists or referring physicians while our employee and the industry knowledge he or she acquired during that tenure to enhance the new employer's ability to compete with us.

The agreements with most of our radiology practices contain non-compete provisions; however the enforceability of these provisions is determined by a court based on all the facts and circumstances of the specific case at the time enforcement is sought. Our inability to enforce radiologists' non-compete provisions could result in increased competition from individuals who are knowledgeable about our business strategies and operations.

***Our failure to successfully, and in a timely manner, integrate acquired businesses and/or new lines of businesses could reduce our profitability.***

We may never realize expected synergies, business opportunities and growth prospects in connection with our acquisitions and joint ventures. We may not be able to capitalize on expected business opportunities, assumptions underlying estimates of expected cost savings may be inaccurate, or general industry and business conditions may deteriorate. In addition, integrating operations will require significant efforts and expense on our part. Personnel may leave or be terminated because of an acquisition. Our management may have its attention diverted while trying to integrate an acquisition. If these factors limit our ability to integrate the operations of an acquisition successfully or on a timely basis, our expectations of future results of operations, including certain cost savings and synergies as a result of the acquisition, may not be met.

In the past we have acquired, and may again in the future acquire, companies that create a new line of business. The process of integrating the acquired business, technology, service and research and development component into our business and operations and entry into a new line of business in which we are inexperienced may result in unforeseen operating difficulties and expenditures. In developing a new line of business, we may invest significant time and resources that take away the attention of management that would otherwise be available for ongoing development of our business. In addition, there can be no assurance that our new lines of business will ultimately be successful. The failure to successfully manage these risks in the development and implementation of new lines of business could have a material, adverse effect on the Company's business, financial condition, and results of operations.

***We may not be able to successfully grow our business, which would adversely affect our financial condition and results of operations.***

Historically, we have experienced substantial growth through acquisitions that have increased our size, scope and geographic distribution. During the past two fiscal years, we have completed 9 acquisitions. These acquisitions have added 22 centers to our fixed-site outpatient diagnostic imaging services. Our ability to successfully expand through acquiring facilities, developing new facilities, adding equipment at existing facilities, and directly or indirectly entering into contractual relationships with high-quality radiology practices depends upon many factors, including our ability to:

- identify attractive and willing candidates for acquisitions;
- identify locations in existing or new markets for development of new facilities;
- comply with legal requirements affecting our arrangements with contracted radiology practices;
- obtain regulatory approvals where necessary and comply with licensing and certification requirements applicable to our diagnostic imaging facilities, the contracted radiology practices and their associated physicians;
- recruit a sufficient number of qualified radiology technologists and other non-medical personnel;
- expand our infrastructure and management; and
- compete for opportunities.

We may not be able to compete effectively for the acquisition of diagnostic imaging facilities. Our competitors may have more established operating histories and greater resources than we do. Competition may also make any acquisitions more expensive. If we are unable to successfully grow our business through acquisitions it could have an adverse effect on our financial condition and results of operations.

***A restriction in our ability to make capital expenditures would restrict our growth and could adversely affect our business.***

We operate in a capital intensive, high fixed-cost industry that requires significant amounts of capital to fund operations, particularly the initial start-up and development expenses of new diagnostic imaging facilities and the acquisition of additional facilities and new diagnostic imaging equipment. We incur capital expenditures to, among other things, upgrade and replace equipment for existing facilities and expand within our existing markets and enter new markets. If we open or acquire additional imaging facilities, we may have to incur material capital lease obligations. To the extent we are unable to generate sufficient cash from our operations, funds are not available from our lenders or we are unable to structure or obtain financing through operating leases, finance leases or long-term installment notes, we may be unable to meet our capital expenditure requirements to support the maintenance and continued growth of our operations.

## **Risks Related to Healthcare Laws and Regulations**

***The regulatory framework in which we operate is uncertain and evolving.***

Although we believe that we are operating in compliance with applicable federal and state laws, neither our current or anticipated business operations nor the operations of the contracted radiology practices have been the subject of judicial or regulatory interpretation. We cannot assure you that a review of our business by courts or regulatory authorities will not result in a determination

that could adversely affect our operations or that the healthcare regulatory environment will not change in a way that restricts our operations. In addition, healthcare laws and regulations may change significantly in the future. We continuously monitor these developments and modify our operations from time to time as the regulatory environment changes. We cannot assure you however, that we will be able to adapt our operations to address new regulations or that new regulations will not adversely affect our business.

Certain states have enacted statutes or adopted regulations affecting risk assumption in the healthcare industry, including statutes and regulations that subject any physician or physician network engaged in risk-based managed care contracting to comply with applicable insurance laws. These laws, if adopted in the states in which we operate, may require physicians and physician networks to meet minimum capital requirements and other safety and soundness requirements. Implementing additional regulations or compliance requirements could result in substantial costs to us and the contracted radiology practices and limit our ability to enter into capitation or other risk-sharing managed care arrangements.

***We may be impacted by eligibility changes to government and private insurance programs.***

Due to potential decreased availability of healthcare through private employers, the number of patients who are uninsured or participate in governmental programs may increase. Healthcare reform legislation will increase the participation of individuals in the Medicaid program in states that elect to participate in the expanded Medicaid coverage. A shift in payor mix from managed care and other private payors to government payors as well as an increase in the number of uninsured patients may result in a reduction in the rates of reimbursement or an increase in uncollectible receivables or uncompensated care, with a corresponding decrease in net revenue. Changes in the eligibility requirements for governmental programs and state decisions on whether to participate in the expansion of such programs also could increase the number of patients who participate in such programs and the number of uninsured patients. Even for those patients who remain in private insurance plans, changes to those plans could increase patient financial responsibility, resulting in a greater risk of uncollectible receivables. Furthermore, additional changes to, or repeal of, the PPACA, whether through legislation or judicial action, may also affect reimbursement and coverage in ways that are currently unpredictable. These factors and events could have a material adverse effect on our business, financial condition, and results of operations.

***State and federal anti-kickback and anti-self-referral laws may adversely affect income.***

Various federal and state laws govern financial arrangements among healthcare providers. The federal Anti-Kickback Statute prohibits the knowing and willful offer, payment, solicitation or receipt of any form of remuneration in return for, or to induce, the referral of Medicare, Medicaid, or other federal healthcare program patients, or in return for, or to induce, the purchase, lease or order of items or services that are covered by Medicare, Medicaid, or other federal healthcare programs. Similarly, many state laws prohibit the solicitation, payment or receipt of remuneration in return for, or to induce the referral of patients in private as well as government programs. Violation of these anti-kickback laws may result in substantial civil or criminal penalties for individuals or entities and/or exclusion from federal or state healthcare programs. We believe we are operating in compliance with applicable law and believe that our arrangements with providers would not be found to violate the anti-kickback laws. However, these laws could be interpreted in a manner inconsistent with our operations.

Federal law prohibiting certain physician self-referrals, known as the Stark Law, prohibits a physician from referring Medicare or Medicaid patients to an entity for certain “designated health services” if the physician has a prohibited financial relationship with that entity, unless an exception applies. Certain radiology services are considered “designated health services” under the Stark Law. Although we believe our operations do not violate the Stark Law, our activities may be challenged. If a challenge is successful, it could have an adverse effect on our operations. In addition, legislation may be enacted in the future that further addresses Medicare and Medicaid fraud and abuse or imposes additional regulatory burdens on us.

In addition, under the DRA, states enacting false claims statutes similar to the federal False Claims Act, which establish liability for submission of fraudulent claims to the State Medicaid program and contain qui tam or whistleblower provisions, receive an increased percentage of any recovery from a State Medicaid judgment or settlement. Adoption of new false claims statutes in states where we operate may impose additional burdens on us.

***Federal and state privacy and information security laws are complex, and if we fail to comply with applicable laws, regulations and standards, or if we fail to properly maintain the integrity of our data, protect our proprietary rights to our systems, or defend against cybersecurity attacks, we may be subject to government or private actions due to privacy and security breaches, and our business, reputation, results of operations, financial position and cash flows could be materially and adversely affected.***

Our operations rely on the secure processing, transmission and storage of confidential, proprietary and other information in our computer systems and networks. We must comply with numerous federal and state laws and regulations governing the collection, dissemination, access, use, security and privacy of PHI, including HIPAA and its implementing privacy and security regulations, as amended by the federal HITECH Act and collectively referred to as HIPAA. Information security risks have significantly increased in recent years in part because of the proliferation of new technologies, the use of the internet and telecommunications technologies to conduct our operations, and the increased sophistication and activities of organized crime, hackers, terrorists and other external

parties, including foreign state agents. If we fail to comply with applicable privacy and security laws, regulations and standards, properly maintain the integrity of our data, protect our proprietary rights to our systems, or defend against cybersecurity attacks, our business, reputation, results of operations, financial position and cash flows could be materially and adversely affected.

We are continuously implementing multiple layers of security measures. We utilize current security technologies and our defenses are monitored and routinely tested internally and by external parties. Despite these efforts, our facilities and systems may be vulnerable to privacy and security incidents; security attacks and breaches; acts of vandalism or theft; computer viruses; coordinated attacks by activist entities; emerging cybersecurity risks; misplaced or lost data; programming and/or human errors; or other similar events. Emerging and advanced security threats, including coordinated attacks, require additional layers of security which may disrupt or impact efficiency of operations.

Any security breach involving the misappropriation, loss or other unauthorized disclosure or use of confidential information, including protected health information, financial data, competitively sensitive information, or other proprietary data, whether by us or a third party, could have a material adverse effect on our business, reputation, financial condition, cash flows, or results of operations. The occurrence of any of these events could result in interruptions, delays, the loss or corruption of data, cessations in the availability of systems or liability under privacy and security laws, all of which could have a material adverse effect on our financial position and results of operations and harm our business reputation. If we are unable to protect the physical and electronic security and privacy of our databases and transactions, we could be subject to potential liability and regulatory action, our reputation and relationships with our patients and vendors would be harmed, and our business, operations, and financial results may be materially adversely affected. Failure to adequately protect and maintain the integrity of our information systems (including our networks) and data, or to defend against cybersecurity attacks, could subject us to monetary fines, civil suits, civil penalties or criminal sanctions and requirements to disclose the breach publicly, and may further result in a material adverse effect on our results of operations, financial position, and cash flows.

***Complying with federal and state regulations is an expensive and time-consuming process, and any failure to comply could result in substantial penalties.***

We are directly or indirectly, through the radiology practices with which we contract, subject to extensive regulation by both the federal government and the state governments in which we provide services, including:

- the federal False Claims Act;
- the federal Medicare and Medicaid Anti-Kickback Statute, and state anti-kickback prohibitions;
- federal and state billing and claims submission laws and regulations;
- HIPAA, as amended by HITECH, and comparable state laws;
- the federal physician self-referral prohibition commonly known as the Stark Law and state equivalents;
- state laws that prohibit the corporate practice of medicine and prohibit similar fee-splitting arrangements;
- federal and state laws governing the diagnostic imaging and therapeutic equipment we use in our business concerning patient safety, equipment operating specifications and radiation exposure levels; and
- state laws governing reimbursement for diagnostic services related to services compensable under workers' compensation rules.

If our operations are found to be in violation of any of the laws and regulations to which we or the radiology practices with which we contract are subject, we may be subject to penalties, including civil and criminal penalties, damages, fines and the curtailment of our operations. Any penalties, damages, fines or curtailment of our operations, individually or in the aggregate, could adversely affect our ability to operate our business and our financial results. The risks of our being found in violation of these laws and regulations is increased by the fact that many of them have not been fully interpreted by the regulatory authorities or the courts, and their provisions are open to a variety of interpretations. Any action brought against us for violation of these laws or regulations, even if we successfully defend against it, could cause us to incur significant legal expenses and divert our management's attention from the operation of our business.

***If we fail to comply with various licensure, certification and accreditation standards, we may be subject to loss of licensure, certification or accreditation, which would adversely affect our operations.***

Ownership, construction, operation, expansion and acquisition of our diagnostic imaging facilities are subject to various federal and state laws, regulations and approvals concerning licensing of personnel, other required certificates for certain types of healthcare facilities and certain medical equipment. In addition, freestanding diagnostic imaging facilities that provide services independent of a physician's office must be enrolled by Medicare as an independent diagnostic treatment facility, or IDTF, to bill the Medicare program. Medicare carriers have discretion in applying the IDTF requirements and therefore the application of these requirements may vary from jurisdiction to jurisdiction. In addition, federal legislation requires all suppliers that provide the technical component of diagnostic MRI, PET/CT, CT, and nuclear medicine to be accredited by an accreditation organization designated by

CMS (which currently include the American College of Radiology (ACR), the Intersocietal Accreditation Commission (IAC) and the Joint Commission). Our MRI, CT, nuclear medicine, ultrasound and mammography facilities are currently accredited by the American College of Radiology. We may not be able to receive the required regulatory approvals or accreditation for any future acquisitions, expansions or replacements, and the failure to obtain these approvals could limit the opportunity to expand our services.

Our facilities are subject to periodic inspection by governmental and other authorities to assure continued compliance with the various standards necessary for licensure and certification. If any facility loses its certification under the Medicare program, then the facility will be ineligible to receive reimbursement from the Medicare and Medicaid programs. For the year ended December 31, 2020, approximately 20% and 2% of our net service fee revenue came from Medicare and various state Medicaid programs, respectively. A change in the applicable certification status of one of our facilities could adversely affect our other facilities and in turn us as a whole. Credentialing of physicians is required by our payors prior to commencing payment. We have experienced a slowdown in the credentialing of our physicians over the last several years which has lengthened our billing and collection cycle, and could negatively impact our ability to collect revenue from patients covered by Medicare.

***Our agreements with the contracted radiology practices must be structured to avoid the corporate practice of medicine and fee-splitting.***

The laws of certain states prohibit us from exercising control over the medical judgments or decisions of physicians and from engaging in certain financial arrangements, such as splitting professional fees with physicians. These laws are enforced by state courts and regulatory authorities, each with broad discretion. A component of our business has been to enter into management agreements with radiology practices. We provide management, administrative, technical and other non-medical services to the radiology practices in exchange for a service fee typically based on a percentage of the practice's revenue. We structure our relationships with the radiology practices, including the purchase of diagnostic imaging facilities, in a manner that we believe keeps us from engaging in the practice of medicine or exercising control over the medical judgments or decisions of the radiology practices or their physicians, or violating the prohibitions against fee-splitting. There can be no assurance that our present arrangements with the Group or the physicians providing medical services and medical supervision at our imaging facilities will not be challenged, and, if challenged, that they will not be found to violate the corporate practice of medicine or fee splitting prohibitions, thus subjecting us to potential damages, injunction and/or civil and criminal penalties or require us to restructure our arrangements in a way that would affect the control or quality of our services and/or change the amounts we receive under our management agreements. Any of these results could jeopardize our business.

***Some of our imaging modalities use radioactive materials, which generate regulated waste and could subject us to liabilities for injuries or violations of environmental and health and safety laws.***

Some of our imaging procedures use radioactive materials, which generate medical and other regulated wastes. For example, patients are injected with a radioactive substance before undergoing a PET scan. Storage, use and disposal of these materials and waste products present the risk of accidental environmental contamination and physical injury. We are subject to federal, state and local regulations governing storage, handling and disposal of these materials. We could incur significant costs and the diversion of our management's attention in order to comply with current or future environmental and health and safety laws and regulations. Also, we cannot completely eliminate the risk of accidental contamination or injury from these hazardous materials. Although we maintain professional liability insurance coverage in amounts we believe is consistent with industry practice in the event of an accident, we could be held liable for any resulting damages, and any liability could exceed the limits of or fall outside the coverage of our professional liability insurance.

## **General Economic, Legal, Tax and Financial Risks**

***Adverse changes in general domestic and worldwide economic conditions and instability and disruption of credit markets could adversely affect our operating results, financial condition, or liquidity.***

We are subject to risk arising from adverse changes in general domestic and global economic conditions, including recession or economic slowdown and disruption of credit markets. Continued concerns about the systemic impact of potential long-term and wide-spread recession, inflation, energy costs, geopolitical issues, the availability and cost of credit have contributed to increased market volatility and diminished expectations for the United States economy. The United States and other western countries have responded to this economic situation by exercising monetary policy to keep interest rates low. Any significant change in economic conditions or change in fiscal monetary policy could result in material changes in interest rates.

Continued turbulence in domestic and international markets and economies may adversely affect our liquidity and financial condition, and the liquidity and financial condition of our patients. If these market conditions continue, they may increase expenses associated with borrowing, limit our ability to timely replace maturing liabilities and access the capital markets to meet liquidity needs, resulting in adverse effects on our financial condition and results of operations.

***Business disruptions and interruptions due to external events beyond our control can adversely affect our business, financial condition or results of operations.***

Our operations can be subject to external events beyond our control, such as the effects of earthquakes, fires, floods, severe weather, public health issues, power failures, telecommunication loss, and other natural and man-made events, some of which may be intensified by the effects of climate change and changing weather patterns. Our corporate headquarters and over 100 of our radiology centers are located in California, which is subject to wildfires, blackouts, and potentially damaging earthquakes. In addition, several of our facilities located in parts of the east coast have suffered from weather events that caused us to temporarily close facilities. More recently, the novel coronavirus outbreak has impacted our business. This or such other events could cause disruption or interruption to our operations and significantly impact our employees. Any disruption to our services may result in decreases in revenues or increased operating and capital expenses. Historically, when we have experienced a reduction in business due to inclement weather or external events for a period of time, our operations have returned to a normalized level, but we have not experience a significant increase of procedures that would fully compensate for the revenues lost during the slower periods.

***Possible volatility in our stock price could negatively affect us and our stockholders.***

The trading price of our common stock on the NASDAQ Global Market has fluctuated significantly in the past. During the period from January 1, 2019 through December 31, 2020, the trading price of our common stock fluctuated from a high of \$23.45 per share to a low of \$5.81 per share. In the past, we have experienced a drop in stock price following an announcement of disappointing earnings or earnings guidance. Any such announcement in the future could lead to a similar drop in stock price. The price of our common stock could also be subject to wide fluctuations in the future as a result of a number of other factors, including the following:

- changes in expectations as to future financial performance or buy/sell recommendations of securities analysts;
- our, or a competitor's, announcement of new services, or significant acquisitions, strategic partnerships, joint ventures or capital commitments; and
- the operating and stock price performance of other comparable companies.

In addition, the U.S. securities markets have experienced significant price and volume fluctuations. These fluctuations often have been unrelated to the operating performance of companies in these markets. Broad market and industry factors may lead to volatility in the price of our common stock, regardless of our operating performance.

In the past, following periods of volatility in the market price of an individual company's securities, securities class action litigation often has been instituted against that company. The institution of similar litigation against us could result in substantial costs and a diversion of management's attention and resources, which could negatively affect our business, results of operations or financial condition.

***Our substantial debt could adversely affect our financial condition and prevent us from fulfilling our obligations under our outstanding indebtedness.***

Our current substantial indebtedness and any future indebtedness we incur could adversely affect our financial condition. We are highly leveraged. As of December 31, 2020, our total combined indebtedness of term loans, capital leases and notes payable, excluding discount on term loan debt, was \$662.4 million. Term loan indebtedness, excluding related discount, was \$662.4 million, of which the Barclays first lien term loans were \$611.0 million and the SunTrust term loan was \$51.4 million. Our substantial indebtedness could also:

- make it difficult for us to satisfy our payment obligations with respect to our outstanding indebtedness;
- require us to dedicate a substantial portion of our cash flow from operations to payments on our debt, reducing the availability of our cash flow to fund working capital, capital expenditures, acquisitions and other general corporate purposes;
- expose us to the risk of interest rate increases on our variable rate borrowings, including borrowings under our new senior secured credit facilities;
- increase our vulnerability to adverse general economic and industry conditions;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- place us at a competitive disadvantage compared to our competitors that have less debt; and
- limit our ability to borrow additional funds on terms that are satisfactory to us or at all.



***We may not be able to finance future needs or adapt our business plan to changes because of restrictions placed on us by our credit facilities and instruments governing our other indebtedness.***

Our credit facilities contain affirmative and negative covenants which restrict, among other things, our ability to:

- pay dividends or make certain other restricted payments or investments;
- incur additional indebtedness and certain disqualified equity interests;
- create liens (other than permitted liens) securing indebtedness or trade payables;
- sell certain assets or merge with or into other companies or otherwise dispose of all or substantially all of our assets;
- enter into certain transactions with affiliates;
- create restrictions on dividends or other payments by our restricted subsidiaries; and
- create guarantees of indebtedness by restricted subsidiaries.

All of these restrictions could affect our ability to operate our business and may limit our ability to take advantage of potential business opportunities as they arise. A failure to comply with these covenants and restrictions would permit the relevant creditors to declare all amounts borrowed under the applicable agreement governing such indebtedness, together with accrued interest and fees, to be immediately due and payable. If the indebtedness under our credit facilities is accelerated, we may not have sufficient assets to repay amounts due under the credit facilities or on other indebtedness then outstanding.

***Our business could be adversely impacted if there are deficiencies in our disclosure controls and procedures or internal control over financial reporting.***

The design and effectiveness of our disclosure controls and procedures and internal control over financial reporting may not prevent all errors, misstatements or misrepresentations. While our management regularly reviews the effectiveness of our disclosure controls and procedures and internal control over financial reporting, there can be no guarantee that our disclosure controls and procedures or our internal control over financial reporting will be effective in accomplishing all control objectives all of the time. Deficiencies, including any material weakness, in our internal control over financial reporting that may occur in the future could result in misstatements of our results of operations, restatements of our financial statements, or otherwise adversely impact our financial condition, results of operations, cash flows, and our ability to satisfy our debt service obligations.

***We are subject to tax audits, challenges to our tax positions, or adverse changes or interpretations of tax laws.***

We are subject to federal and applicable state income tax laws and regulations. Income tax laws and regulations are often complex and require significant judgment in determining our effective tax rate and in evaluating our tax positions. Our determination of our tax liability is subject to review by applicable tax authorities. Any audits or challenges of such determinations may adversely affect our effective tax rate, tax payments or financial condition. Recently enacted U.S. tax legislation, the most significant of which is the Tax Cuts and Jobs Act of 2017 (the “Tax Act”), made significant changes to federal tax law, including the taxation of corporations, by, among other things, reducing the corporate income tax rate, disallowing certain deductions that had previously been allowed, and altering the expensing of capital expenditures.

The ultimate impact of the Tax Act may differ from our estimates due to changes in interpretations and assumptions made by us as well as potential amendments, technical corrections, and additional regulatory guidance that may be issued, and any such changes could have an adverse effect on our business, results of operations, financial condition and cash flow. Furthermore, future related changes may occur at the state level that could result in unfavorable adjustments to our tax liability.

***We may be required to recognize an impairment of our goodwill or other indefinite-lived intangible assets, which could have an adverse effect on our financial position and results of operations.***

We recognized an impairment of goodwill and trade name in our Imaging On Call reporting unit in the amount of \$3.9 million for the year ended December 31, 2018. During the current year of 2020 we ceased employing certain indefinite lived trade names with a total value of \$4.2 million and they were written off in full. We are required to perform impairment tests for goodwill and other indefinite-lived intangible assets annually and whenever events or circumstances indicate that it is more likely than not that impairment exists or that the carrying amounts of the assets may not be recoverable, we recognize an impairment. A decline in the Company’s operating results, future estimated cash flows and other assumptions could impact our estimated fair values, potentially leading to a material impairment of goodwill or other indefinite-lived assets, which could adversely affect our financial position and results of operations.

*Because we have high fixed costs, lower scan volumes per system could adversely affect our business.*

The principal components of our expenses, excluding depreciation, consist of debt service, capital lease payments, compensation paid to technologists, salaries, real estate lease expenses and equipment maintenance costs. Because a majority of these expenses are fixed, a relatively small change in our revenue could have a disproportionate effect on our operating and financial results depending on the source of our revenue. Thus, decreased revenue as a result of lower scan volumes per system could result in lower margins, which could materially adversely affect our business.

*Provisions of the Delaware General Corporation Law and our organizational documents may discourage an acquisition of us.*

In the future, we could become the subject of an unsolicited attempted takeover of our company. Although an unsolicited takeover could be in the best interests of our stockholders, our organizational documents and the General Corporation Law of the State of Delaware both contain provisions that will impede the removal of directors and may discourage a third-party from making a proposal to acquire us. For example, the provisions:

- permit the board of directors to increase its own size, within the maximum limitations set forth in the bylaws, and fill the resulting vacancies;
- authorize the issuance of shares of preferred stock in one or more series without a stockholder vote;
- establish an advance notice procedure for stockholder proposals to be brought before an annual meeting of our stockholders, including proposed nominations of persons for election to the board of directors; and
- prohibit transfers and/or acquisitions of stock (without consent of the Board of Directors ) that would result in any stockholder owning greater than 5% of the currently outstanding stock resulting in a limitation on net operating loss carryovers, capital loss carryovers, general business credit carryovers, alternative minimum tax credit carryovers and foreign tax credit carryovers, as well as any loss or deduction attributable to a “net unrealized built-in loss” within the meaning of Section 382 of the internal revenue code of 1986, as amended.

We are subject to Section 203 of the Delaware General Corporation Law, which could have the effect of delaying or preventing a change in control.

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

Our corporate headquarters is located in adjoining premises at 1508, 1510 and 1516 Cotner Avenue, Los Angeles, California 90025, and approximately 21,500 square feet is occupied under these leases, which including options, expire June 30, 2027. We also have a regional office of approximately 39,000 square feet in Baltimore, Maryland under a lease, which including options, expires September 30, 2028. In addition, we lease approximately 52,000 square feet of warehouse space under leases nationwide, which expire at various dates, including options, through December 31, 2028.

At December 31, 2020, we operated directly or indirectly through joint ventures with hospitals, 331 centers located in Arizona, California, Delaware, Florida, Maryland, New Jersey, and New York. We lease the premises at which these facilities are located and do not have options to purchase the facilities we rent. Our most common initial term varies in length from 5 to 15 years. Including renewal options negotiated with the landlord, we can have a total span of 10 to 35 years at the facilities we lease. We also lease smaller satellite X-Ray locations on mutually renewable terms, usually lasting one year. Rental increases can range from 1% to 10% on an annual basis, depending on the location and market conditions where we do business.

As of December 31, 2020, total square footage operated directly or indirectly under lease, including medical office, administrative and warehouse locations, was approximately 2.7 million square feet.

**Item 3. Legal Proceedings**

We are engaged from time to time in the defense of lawsuits arising out of the ordinary course and conduct of our business. We believe that the outcome of our current litigation will not have a material adverse impact on our business, financial condition and results of operations. However, we could be subsequently named as a defendant in other lawsuits that could adversely affect us.

**Item 4. Mine Safety Disclosures**

Not applicable.

## PART II

### Item 5. Market for the Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

#### Principal Trading Market

Our common stock is quoted on the NASDAQ Global Market under the symbol “RDNT”.

#### Dividends

We have never declared or paid cash dividends on our capital stock and we do not expect to pay any dividends in the foreseeable future. We currently intend to retain future earnings, if any, to finance the growth and development of our business. Our current credit facilities place restrictions on our ability to issue dividends. See discussion under “Liquidity and Capital Resources” regarding our current credit facilities. Payment of future dividends, if any, will be at the discretion of our board of directors and will depend on our financial condition, results of operations, capital requirements and such other factors as the board of directors deems relevant.

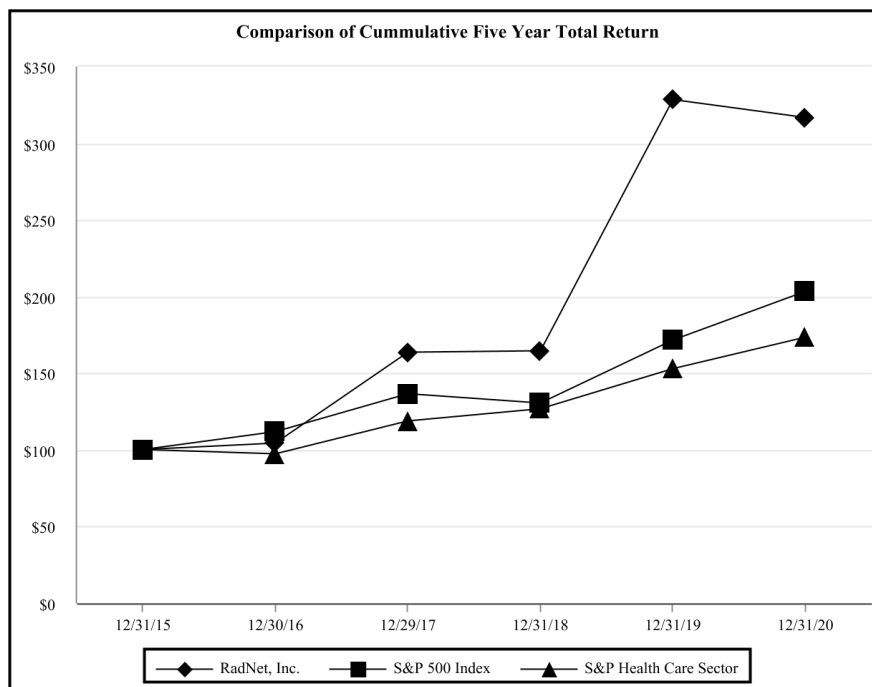
#### Equity Compensation Plans Information

The information required by this item will be contained in our definitive proxy statement, to be filed with the SEC in connection with our 2021 annual meeting of stockholders, which is expected to be filed not later than 120 days after the end of our fiscal year ended December 31, 2020, and is incorporated in this report by reference.

#### Stock Performance Graph

The following graph compares the yearly percentage change in cumulative total stockholder return of our common stock during the period from 2015 to 2020 with (i) the cumulative total return of the S&P 500 index and (ii) the cumulative total return of the S&P 500 – Healthcare Sector index. The comparison assumes \$100 was invested on December 31, 2015 in our common stock and in each of the foregoing indices and the reinvestment of dividends through December 31, 2020. The stock price performance on the following graph is not necessarily indicative of future stock price performance.

This graph shall not be deemed incorporated by reference by any general statement incorporating by reference this Form 10-K into any filing under the Securities Act or under the Exchange Act, except to the extent that RadNet specifically incorporates this information by reference, and shall not otherwise be deemed filed under the Securities Act or the Exchange Act.



**ANNUAL RETURN PERCENTAGE**

<u>Company / Index</u>	<b>Years Ending</b>				
	<b>12/30/16</b>	<b>12/29/17</b>	<b>12/31/18</b>	<b>12/31/19</b>	<b>12/31/20</b>
RadNet, Inc.	4.37	56.59	0.69	99.61	(3.6)
S&P 500 Index	11.96	21.83	(4.38)	31.49	18.4
S&P Health Care Sector	(2.69)	22.08	6.47	20.82	13.45

**INDEXED RETURNS**

<u>Company / Index</u>	<b>Base Period</b>	<b>Years Ending</b>				
		<b>12/31/15</b>	<b>12/30/16</b>	<b>12/29/17</b>	<b>12/31/18</b>	<b>12/31/19</b>
RadNet, Inc.	100	104.37	163.43	164.56	328.48	316.67
S&P 500 Index	100	111.96	136.4	130.42	171.49	203.04
S&P Health Care Sector	100	97.31	118.79	126.47	152.81	173.36

**Recent Sales of Unregistered Securities**

None

**Item 6. Selected Consolidated Financial Data**

The following table sets forth our selected historical consolidated financial data. The selected consolidated statements of operations data set forth below for the years ended December 31, 2020, 2019 and 2018, and the consolidated balance sheet data as of December 31, 2020 and 2019, are derived from our audited consolidated financial statements and notes thereto included in this annual report on Form 10-K. The selected historical consolidated statements of operations data set forth below for the years ended December 31, 2017 and 2016, and the consolidated balance sheet data set forth below as of December 31, 2018, 2017 and 2016, are derived from our audited consolidated financial statements not included herein. This data should be read in conjunction with and is qualified in its entirety by reference to the audited consolidated financial statements and the related notes included elsewhere in this annual report and Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations."

The financial data set forth below and discussed in this annual report are derived from the consolidated financial statements of RadNet, its subsidiaries and certain affiliates. As a result of the contractual and operational relationship among Dr. Berger, Dr. Crues and the Company, we are considered to have a controlling financial interest in the Group pursuant to applicable accounting guidance. Due to the deemed controlling financial interest, we are required to include the Group as consolidated entities in our consolidated financial statements. This means, for example, that revenue generated by the Group from the provision of professional medical services to our patients, as well as the Group's costs of providing those services, are included as net revenue and cost of operations in our consolidated statement of operations, whereas the management fee that the Group pays to us under our management agreement with the Group is eliminated as a result of the consolidation of our results. Also, because the Group is consolidated in our financial statements, any borrowings or advances we have received from or made to the Group has been eliminated in our consolidated balance sheet. If the Group was not treated as consolidated entities in our consolidated financial statements, the presentation of certain items in our income statement, such as net service fee revenue and costs and expenses, would change but our net income would not, because in operation and historically, the annual revenue of the Group from all sources closely approximates its expenses, including Dr. Berger's and Dr. Crues' compensation, fees payable to us and amounts payable to third parties.

	<b>Years Ended December 31,</b>				
	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
	(in thousands, except per share data)				
Statement of Operations Data:					
Net revenue and provider relief funds	\$ 1,098,104	\$ 1,154,179	\$ 975,146	\$ 922,186	\$ 884,535
Operating expenses:					
Cost of operations, excluding depreciation and amortization	965,902	999,692	867,547	802,377	775,801
Depreciation and amortization	86,795	80,607	72,899	66,796	66,610
Loss (gain) on sale and disposal of equipment, net	1,200	2,383	(2,054)	1,142	767
Gain on sale of imaging center and medical practice	—	—	—	(3,416)	—
Gain on re-measurement of pre-existing interest	—	(768)	(39,539)	—	—
Gain on return of common stock	—	—	—	—	(5,032)
Meaningful use incentive	—	—	—	(250)	(2,808)
Gain on extinguishment of debt	(4,047)	—	—	—	—
Loss on impairment	4,170	—	3,937	—	—

Net income attributable to RadNet common stockholders	(14,840)	14,756	32,243	53	7,230
Basic income per share attributable to RadNet common stockholders	(0.29)	0.30	0.67	—	0.18
Diluted income per share attributable to RadNet common stockholders	(0.29)	0.29	0.66	—	0.17

Balance Sheet Data:

Cash and cash equivalents	\$ 102,018	\$ 40,165	\$ 10,389	\$ 51,322	\$ 20,638
Total assets	1,786,657	1,646,986	1,109,330	868,979	849,476
Total long-term liabilities	1,130,240	1,086,419	669,560	607,448	642,082
Total liabilities	1,528,354	1,413,847	909,077	799,054	797,423
Working capital (exclusive of current operating lease liability)	(61,896)	(25,048)	(30,827)	43,745	62,573
Equity	258,303	233,139	200,253	69,925	52,053

**Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations**

The following Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) is intended to help the reader understand the results of operations and financial condition of RadNet Inc. MD&A is provided as a supplement to, and should be read in conjunction with, our consolidated financial statements and the accompanying notes included in this annual report on Form 10-K.

**Overview**

We are a leading national provider of freestanding, fixed-site outpatient diagnostic imaging services in the United States based on number of locations and annual imaging revenue. Our centers provide physicians with imaging capabilities to facilitate the diagnosis and treatment of diseases and disorders and may reduce unnecessary invasive procedures, often reducing the cost and amount of care for patients. We have developed our medical imaging business through a combination of organic growth, acquisitions and joint venture formations, and derive substantially all of our revenue from fees charged for the diagnostic imaging services performed at our facilities.

During 2020, facing the novel strain of the coronavirus (“COVID-19”), we began experiencing reduced procedure volumes at the end of the first quarter which intensified through mid year but did return to 90% of pre-COVID-19 pace in the third quarter and remained consistent throughout the fourth quarter. To respond to the pandemic during the year we adjusted our business operations, inclusive of concentrating patient traffic to larger imaging centers, negotiating payment terms with vendors and landlords, initiating employee furloughs, compensation reductions, and telecommuting. The arrival of the mRNA vaccine to protect against the virus is a welcome development. As inoculations ramp up across the country and other mitigation procedures continue, we can begin to look forward to a return of normal business operations.

Despite the impact of COVID, we continued to invest and position for future growth. We continued to grow through acquisition, being a new entrant in Arizona marketplace and on the east coast adding to our presence in New Jersey and the New York city area. In our related businesses we increased our focus on Artificial Intelligence with our acquisition of DeepHealth Inc. while exiting our Imaging on Call teleradiology operations.

The following table shows our facilities in operation at year end and revenues for the years ended December 31, 2020, 2019 and 2018:

	<b>Years Ended December 31,</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
Facilities in operation	331	335	344
Total revenue (millions)	\$ 1,072	\$ 1,154	\$ 975

Our revenue is derived from a diverse mix of payors, including private payors, managed care capitated payors and government payors. We believe our payor diversity mitigates our exposure to possible unfavorable reimbursement trends within any one payor class. In addition, our experience with capitation arrangements over the last several years has provided us with the expertise to manage utilization and pricing effectively, resulting in a predictable stream of revenue. Our service fee revenue, net of contractual

allowances and discounts, implicit price concessions, and revenue under capitation arrangements for the years ended December 31, are summarized in the following table (in thousands):

	<b>Years Ended December 31,</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
Commercial insurance	\$ 584,035	\$ 642,341	\$ 542,011
Medicare	217,928	237,427	192,881
Medicaid	25,619	28,283	25,615
Workers' compensation/personal injury	33,478	42,792	34,193
Other patient revenue	25,314	23,862	25,117
Management fee revenue	11,253	11,659	13,882
Imaging on call and software	10,798	17,317	16,261
Other	23,297	24,555	18,781
Service fee revenue	931,722	1,028,236	868,741
Revenue under capitation arrangements	140,118	125,943	106,405
Total revenue	<u>\$ 1,071,840</u>	<u>\$ 1,154,179</u>	<u>\$ 975,146</u>

We typically experience some seasonality to our business. During the first quarter of each year we generally experience the lowest volumes of procedures and the lowest level of revenue for any quarter during the year. This is primarily the result of two factors. First, our volumes and revenue are typically impacted by winter weather conditions in our northeastern operations. It is common for snowstorms and other inclement weather to result in patient appointment cancellations and, in some cases, imaging center closures. Second, in recent years, we have observed greater participation in high deductible health plans by patients. As these high deductibles reset in January for most of these patients, we have observed that patients utilize medical services less during the first quarter, when securing medical care will result in significant out-of-pocket expenditures.

Our services include magnetic resonance imaging (MRI), computed tomography (CT), positron emission tomography (PET), nuclear medicine, mammography, ultrasound, diagnostic radiology (X-ray), fluoroscopy and other related procedures. The following table shows the number of systems that we had in operation as of the years ended December 31, 2020, 2019 and 2018:

	<b>Years Ended December 31,</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
MRI	293	288	273
CT	175	168	162
PET/CT	67	62	59
Mammography	315	303	289
Ultrasound	689	662	632
X-ray	376	343	308
Nuclear Medicine	57	50	53
Fluoroscopy	117	120	117
Total equipment	<u>2,089</u>	<u>1,996</u>	<u>1,893</u>

#### **Facility Acquisitions, Dispositions, Equity Investments and Formation of Joint Ventures**

The following discussion summarizes certain details concerning our acquisition or disposition of facilities, our equity investment and our joint venture transaction. See Note 4, Facility Acquisitions and Dispositions to our consolidated financial statements included in this annual report on Form 10-K for further information.

##### ***Facility acquisitions***

In October and November 2020, we completed our acquisition of certain assets of ZP Atlantic LLC, and ZP Elmhurst LLC. We made a fair value determination of the acquired assets and assumed liabilities and the following were recorded (in thousands):

	ZP Atlantic	ZP Elmhurst
Property and Equipment	\$ 7,931	\$ 10,681
Right of Use Assets	6,181	12,571
Other Assets	62	75
Intangible Assets	50	50
Right of Use Liabilities	(6,181)	(12,571)
Goodwill	828	1,463

TOTAL	\$	8,871	\$	12,269
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On August 31, 2020 we completed our acquisition of certain assets of AZ-Tech Radiology & Open MRI, LLC, consisting of eight multi-modality imaging centers located in the Phoenix, Arizona area for purchase consideration of \$5.5 million. We made a fair value determination of the acquired assets and assumed liabilities and approximately \$2.5 million in property and equipment, \$7.6 million in right-of-use assets, \$0.1 million in other assets, \$7.6 million in operating lease liabilities, and \$2.9 million in goodwill were recorded.

On June 1, 2020, we completed our acquisition of all the equity interests of DeepHealth Inc., (“DeepHealth”) an artificial intelligence and machine learning company in an all stock purchase. As initial purchase consideration, we issued 915,132 shares at \$16.93 per share (823,615 issued at execution, with up to 91,517 shares to be issued 18 months after acquisition subject to adjustment for any indemnification claims). The transaction was accounted for as an acquisition of a business and total purchase consideration determined to be approximately \$34.6 million including i) 823,615 shares issued on the date of closing with fair value of \$13.9 million, ii) a liability of 91,517 shares with a fair value of \$1.5 million to be issued 18 months after acquisition subject to adjustment for any indemnification claims and will be marked to market in subsequent periods, iii) replacement awards attributable to pre-combination service issued to DeepHealth option holders with allocated fair value of \$2.0 million, iv) acquisition date fair value of contingent consideration of \$17.0 million and v) \$0.1 million in closing costs reimbursed to the seller. The fair values of replacement awards attributable to pre-combination service and contingent consideration are recorded in additional paid in capital upon closing of the transaction. For the contingent consideration, there are three arrangements that will be settled in a fixed number of shares upon achievement of three individual specific milestones which are mutually exclusive of each other, with 390,789, 586,184, and 195,393 shares, respectively, issuable for each milestone arrangement. The fair value of the contingent consideration was estimated at the date of acquisition based on our share price and estimated probability of the achievement of the respective milestones. We preliminarily recorded \$0.1 million in current assets, \$3.5 million in deferred tax liabilities, \$14.8 million in intangible assets, primarily in-process research and development (“IPR&D”), and \$23.3 million in goodwill. The goodwill is primarily attributable to expected post-acquisition synergies from integrating DeepHealth’s assembled workforce and IPR&D technologies. The fair values of the identifiable intangible assets related to IPR&D were determined by the income method and the assets will not be amortized until completion.

On March 2, 2020 our consolidated subsidiary New Jersey Imaging Networks (“NJIN”) completed the acquisition of certain assets of MRI at Woodbridge, LLC consisting of a single multi-modality imaging center located in Avenel, New Jersey for cash consideration of \$2.6 million. NJIN made a fair value determination of the acquired assets and assumed liabilities and approximately \$0.5 million in property and equipment, \$1.1 million in right-of-use assets, \$0.3 million in intangible assets, \$1.1 million in operating lease liabilities, \$0.1 million in finance lease liabilities, and \$1.8 million in goodwill were recorded.

On January 2, 2020 we completed our acquisition of certain assets of Olney Open MRI, LLC, consisting of a single multi-modality imaging center located in Columbia, Maryland for cash consideration of \$1.8 million. We have made a fair value determination of the acquired assets and assumed liabilities and approximately \$0.8 million in property and equipment, \$1.3 million in right-of-use assets, \$0.3 million in intangible assets, \$1.3 million in operating lease liabilities and \$0.6 million in goodwill were recorded.

On August 1, 2019 we completed a step-up acquisition upon the dissolution of our former 49% owned joint venture, Garden State Radiology LLC (“GSRN”). GSRN consisted of two multi-modality centers operating in New Jersey. GSRN became our wholly owned subsidiary with the withdrawal of the 51% majority partner for the full ownership of one center with no other consideration. We made a fair value determination of our original 49% interest which resulted in a step-up gain of approximately \$1.3 million. We determined a fair value of the remaining acquired imaging center of \$3.1 million in assets and \$0.4 million in liabilities were recognized. We recorded \$1.0 thousand in other assets, \$0.7 million in fixed assets, \$0.4 million in right-of-use assets, \$0.4 million in operating lease liabilities, and \$2.0 million in goodwill.

On August 1, 2019 we completed a step-up acquisition of our former 25% owned joint venture, Nulogix, via a stock issuance of RadNet common shares valued at \$1.5 million to obtain the remaining 75% outstanding Nulogix shares. We made a fair value determination of the acquired assets and approximately \$0.2 million in fixed assets, \$0.7 million in intangible assets, \$0.3 million in deferred tax liability and goodwill of \$1.3 million were recorded. We also made a fair value determination of our 25% pre-existing interest in the business and recognized a loss of \$0.5 million which is included in operating expenses within the consolidated statements of operations.

On April 1, 2019 we completed our acquisition of certain assets of Kern Radiology Imaging Systems Inc., consisting of four multi-modality imaging centers located in Bakersfield, California for purchase consideration of \$19.3 million. We made a fair value determination of the acquired assets and assumed liabilities and approximately \$10.1 million in property and equipment, \$9.7 million in right-of-use assets, \$36.0 thousand in other assets, \$3.4 million in intangible assets, \$14.5 million in operating lease liabilities, and \$10.5 million in goodwill were recorded.

On April 1, 2019 we completed our acquisition of certain assets of Zilkha Radiology Inc. consisting of two multi-modality centers located in Islip, New York for purchase consideration of \$4.5 million. We made a fair value determination of the acquired assets and assumed liabilities and approximately \$2.2 million in property and equipment, \$5.1 million in right-of-use assets, \$0.1 million in intangible assets, \$5.1 million in operating lease liabilities, \$0.3 million in finance lease liabilities and \$2.6 million in goodwill were recorded.

On February 28, 2019, one of our Variable Interest Entities (VIEs), Lenox Hill Radiology and Medical Imaging Associates, P.C. (“LHR”), purchased the membership interest of Hudson Valley Radiology Associates, P.L.L.C. (“HVRA”) for \$6.0 million of RadNet common stock and contingent consideration valued at \$0.7 million to guarantee the share value issued for a period of six months post acquisition date. LHR has performed a fair value purchase price allocation and recorded equipment of \$10.0 thousand, a covenant not to compete of \$50.0 thousand, trade name of \$0.4 million, other intangible assets of \$0.3 million and goodwill of \$3.1 million from the transaction. In connection with the acquisition, RadNet also settled against the purchase consideration, \$2.8 million, net of taxes, of an unfavorable vendor contract with HVRA stemming from the previous acquisition of Radiologix, Inc. in November 2006.

On February 1, 2019, our majority owned subsidiary, West Valley Imaging Group, LLC (“WVIG”) completed its acquisition of certain assets of West Valley Imaging Center, LLC (“West Valley”), consisting of a single multi-modality imaging center located in West Hills, CA for purchase consideration of \$3.0 million all of which was initially funded by the Company. We have made a fair value determination of the acquired assets and approximately \$0.3 million in equipment and fixed assets, \$7.0 thousand in other assets, \$0.2 million in intangible assets and \$2.5 million in goodwill were recorded. Subsequent to the transaction, our partner in WVIG, Cedars Sinai Medical Center, contributed \$0.8 million in cash to maintain its 25% economic interest in the venture.

### ***Dispositions***

On June 1, 2020 we completed our sale of certain assets of our Imaging On Call subsidiary for approximately \$1.0 thousand. With this transaction, we have exited the teleradiology business.

### ***Equity Investments***

Medic Vision, based in Israel, specializes in software packages that provide compliant radiation dose structured reporting and enhanced images from reduced dose CT scans. On March 24, 2017, we acquired an initial 12.50% equity interest in Medic Vision - Imaging Solutions Ltd for \$1.0 million. We also received an option to exercise warrants to acquire up to an additional 12.50% equity interest for \$1.4 million within one year from the initial share purchase date, if exercised in full. On March 1, 2018 we exercised our warrant in part and acquired an additional 1.96% for \$0.2 million. Our initial equity interest has been diluted to 12.25% and our total equity investment stands at 14.21%. In accordance with accounting guidance, as we exercise no significant influence over Medic Vision’s operations, the investment is recorded at its cost of \$1.2 million, given that the fair value is not readily determinable. No observable price changes or impairment in our investment was noted as of the year ended December 31, 2020.

Turner Imaging Systems, based in Utah, develops and markets portable X-ray imaging systems that provide a user the ability to acquire X-ray images wherever and whenever they are needed. On February 1, 2018, we purchased 2.1 million preferred shares in Turner Imaging Systems for \$2.0 million. On January 1, 2019 we funded a convertible promissory note in the amount of \$143,000 that converted to an additional 80,000 preferred shares on October 11, 2019. No observable price changes or impairment in our investment was noted for the year ended December 31, 2020.

WhiteRabbit.ai Inc., based in California, is currently developing an artificial intelligence suite which aims to improve the speed and accuracy of cancer detection in radiology and improve patient care. On November 5, 2019 we acquired an equity interest in the company for \$1.0 million and also loaned the company \$2.5 million in support of its operations. No observable price changes or impairment in our investment was noted for the year ended December 31, 2020.

### ***Formation of new joint ventures***

Effective November 1 2020, Arizona Diagnostic Radiology Group LLC (“ADRG”), an entity we formed in conjunction with CHI National Services Inc. (“CHI”), assumed operational and managerial oversight of our Arizona centers. We hold a 49% economic interest and CHI holds 51% economic interest in ADRG and we account for the venture under the equity method. The entity was formed in part to leverage CHI’s established presence in the Phoenix, Arizona market as a major health care provider.

On February 13, 2019 we formed a wholly owned subsidiary, Ventura County Imaging Group, LLC (“VCIG”). On March 1, 2019, Dignity Health joined as a venture partner. Total agreed contribution of both parties was \$10.4 million of cash and assets with RadNet contributing net assets with a book value of \$4.3 million for a 60% economic interest and Dignity Health contributing \$6.1 million in cash and assets for a 40% economic interest. For its contribution, RadNet transferred net assets of three wholly owned multi-modality imaging centers. Dignity Health contributed approximately \$0.8 million in assets to acquire 5% economic interest



and paid RadNet \$5.3 million for an additional 35% economic interest. We maintain controlling economic interest in VCIG and fully consolidate the results into our financial statements.

**Sale of joint venture interest:**

On April 1, 2017, we formed in conjunction with Cedars Sinai Medical Center (“CSMC”) the Santa Monica Imaging Group, LLC (“SMIG”), consisting of two multi-modality imaging centers located in Santa Monica, CA. Upon formation, RadNet held a 40% economic interest and CSMC held a 60% economic interest. RadNet accounts for our share of the venture under the equity method. On January 1, 2019, CSMC purchased from us an additional 5% percent economic interest in SMIG valued at \$0.1 million. As a result of the transaction, our economic interest in SMIG has been reduced to 35%. We recorded a loss of \$2.0 thousand on the transaction.

**Change in control of existing joint ventures**

On October 6, 2014, we acquired a 49% equity interest in Garden State Radiology Network, LLC (“GSRN”) for cash consideration of \$2.2 million. The venture consisted of two imaging centers located in New Jersey. On August 1, 2019, the entity was dissolved by transferring ownership of the assets of the centers to the partners for no consideration, with each partner receiving full ownership of one center.

On April 12, 2018 we acquired 25% share capital in Nulogix, Inc. for cash consideration of \$2.0 million. On August 1, 2019 we completed via the issuance of RadNet common stock valued at \$1.5 million, the acquisition of the remaining 75% economic interest and we now consolidate the financial statements of Nulogix as a wholly owned subsidiary.

**Results of Operations**

The following table sets forth, for the periods indicated, the percentage that certain items in the statements of operations bears to net revenue for the years 2020, 2019 and 2018.

	<b>Years Ended December 31,</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
<b>REVENUE</b>			
Service fee revenue	86.9 %	89.1 %	89.1 %
Revenue under capitation arrangements	13.1 %	10.9 %	10.9 %
Total Revenue	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
Provider relief funding	2.5 %	— %	— %
<b>OPERATING EXPENSES</b>			
Cost of operations, excluding depreciation and amortization	90.1 %	86.6 %	89.0 %
Depreciation and amortization	8.1 %	7.0 %	7.5 %
Loss (gain) on sale and disposal of equipment	0.1 %	0.2 %	(0.2)%
Loss on impairment	0.4 %	— %	0.4 %
Severance costs	0.4 %	0.1 %	0.2 %
Total operating expenses	<u>99.1 %</u>	<u>93.9 %</u>	<u>96.8 %</u>
<b>INCOME FROM OPERATIONS</b>	3.3 %	6.1 %	3.2 %
<b>OTHER INCOME AND EXPENSES</b>			
Interest expense	4.3 %	4.2 %	4.5 %
Equity in earnings of joint ventures	(0.7)%	(0.7)%	(1.2)%
Gain on re-measurement of pre-existing interest	— %	(0.1)%	(4.1)%
Gain on extinguishment of debt	(0.4)%	— %	— %
Other expenses	— %	0.1 %	— %
Total other expenses (income)	<u>3.4 %</u>	<u>3.5 %</u>	<u>(0.8)%</u>
<b>INCOME BEFORE INCOME TAXES</b>	(0.1)%	2.6 %	4.0 %
Benefit from (provision for) income taxes	(0.1)%	(0.5)%	— %
<b>NET INCOME</b>	(0.2)%	2.0 %	3.9 %
Net income attributable to noncontrolling interests	1.2 %	0.8 %	0.6 %
<b>NET (LOSS) INCOME ATTRIBUTABLE TO RADNET, INC.</b>			
<b>COMMON STOCKHOLDERS</b>	<u>(1.4)%</u>	<u>1.3 %</u>	<u>3.3 %</u>

## Year Ended December 31, 2020 Compared to the Year Ended December 31, 2019

We grow through a combination of organic growth as well as acquisitions and joint ventures. We have segregated some of our information to demonstrate which is attributable to centers that were in operation throughout the entirety of the comparison period, and which is attributable to centers that were acquired or disposed of during the period. For the discussion below, same centers are those that were in continuous operation from January 1, 2019 through December 31, 2020.

### Total Revenue inclusive of Provider Relief Funding for 2020

In Thousands	Year Ended December 31,			
	2020	2019	\$ Increase/(Decrease)	% Change
Revenue				
Total Revenue	\$1,098,104	\$1,154,179	(\$56,075)	(4.9)%
Same Center Revenue	\$1,038,780	\$1,093,317	(\$54,537)	(5.0)%

Our procedure volumes for the year ended December 31, 2020 were affected by the COVID-19 pandemic, which precipitated an approximate 12.3% decrease in same center procedural volumes year over year. Mitigating the income decline is \$26.3 million received in Provider Relief funding, which, per the official designation of the program, was used to offset lost revenues and incremental expenses. This comparison excludes revenue contributions from centers that were acquired or divested subsequent to January 1, 2019. For the twelve months ended December 31, 2020, net service fee revenue from centers that were acquired or divested subsequent to January 1, 2019 and excluded from the above comparison was \$59.3 million. For the twelve months ended December 31, 2019, net service fee revenue from centers that were acquired or divested subsequent to January 1, 2019 and excluded from the above comparison was \$60.9 million.

### Operating Expenses

Total operating expenses for the twelve months ended December 31, 2020 decreased approximately \$21.9 million, or 2.0%, from \$1.08 billion for the twelve months ended December 31, 2019 to \$1.06 billion for the twelve months ended December 31, 2020. The following table sets forth our cost of operations and total operating expenses for the twelve months ended December 31, 2020 and 2019 (in thousands):

	Years Ended December 31,	
	2020	2019
Salaries and professional reading fees, excluding stock-based compensation	\$ 591,338	\$ 634,179
Stock-based compensation	12,405	8,731
Building and equipment rental	108,202	106,495
Medical supplies	44,964	45,955
Other operating expenses*	208,993	204,332
Cost of operations	965,902	999,692
Depreciation and amortization	86,795	80,607
Loss on sale and disposal of equipment	1,200	2,383
Loss on impairment	4,170	—
Severance costs	4,353	1,619
Total operating expenses	\$ 1,062,420	\$ 1,084,301

\* Includes billing fees, office supplies, repairs and maintenance, insurance, business tax and license, outside services, telecommunications, utilities, marketing, travel and other expenses.

### Salaries and professional reading fees, excluding stock-based compensation and severance

In Thousands	Year Ended December 31,			
	2020	2019	\$ Increase/(Decrease)	% Change
Salaries and Professional Fees				
Total	\$591,338	\$634,179	(\$42,841)	(6.8)%
Same Center	\$561,720	\$602,448	(\$40,728)	(6.8)%

The decrease in salaries expense was a result of staff furloughs and payroll reductions initiated in response to the COVID-19 crisis and later sustained by the implementation of efficiencies garnered from a review of operational workflows. This comparison excludes expenses from centers that were acquired or divested subsequent to January 1, 2019. For the twelve months ended December 31, 2020, salaries and professional reading fees from centers that were acquired or divested subsequent to January 1, 2019 and excluded from the above comparison was \$29.6 million. For the twelve months ended December 31, 2019, salaries and professional reading fees from centers that were acquired or divested subsequent to January 1, 2019 and excluded from the above comparison was approximately \$31.7 million.

### Stock-based compensation

Stock-based compensation increased \$3.7 million, or 42.1%, to approximately \$12.4 million for the twelve months ended December 31, 2020 compared to \$8.7 million for the twelve months ended December 31, 2019. This increase was driven by the higher fair value of RSA's awarded and vested in the year ended December 31, 2020 as compared to RSA's awarded and vested in the same period in 2019.

### Building and equipment rental

In Thousands	Year Ended December 31,			
	2020	2019	\$ Increase/(Decrease)	% Change
Building & Equipment Rental				
Total	\$108,202	\$106,495	\$1,707	1.6%
Same Center	\$99,483	\$98,482	\$1,001	1.0%

This comparison excludes expenses from centers that were acquired or divested subsequent to January 1, 2019. For the twelve months ended December 31, 2020, building and equipment rental expenses from centers that were acquired or divested subsequent to January 1, 2019 and excluded from the above comparison was \$8.7 million. For the twelve months ended December 31, 2019, building and equipment rental expenses from centers that were acquired or divested subsequent to January 1, 2019 and excluded from the above comparison was also \$8.0 million.

### Medical supplies

In Thousands	Year Ended December 31,			
	2020	2019	\$ Increase/(Decrease)	% Change
Medical Supplies Expense				
Total	\$44,964	\$45,955	(\$991)	(2.2)%
Same Center	\$40,894	\$42,384	\$(1,490)	(3.5)%

The drop in medical supplies expense was related to decreased use of contrast agents driven by volume reduction in our advanced imaging modalities of CT and PET, which were reduced a combined 10% year over year due to COVID-19. This comparison excludes expenses from centers that were acquired or divested subsequent to January 1, 2019. For the twelve months ended December 31, 2020, medical supplies expenses from centers that were acquired or divested subsequent to January 1, 2019 and excluded from the above comparison was \$4.1 million. For the twelve months ended December 31, 2019, medical supplies expense from centers that were acquired or divested subsequent to January 1, 2019 and excluded from the above comparison was \$3.6 million.

### Other operating expenses

In Thousands	Year Ended December 31,			
	2020	2019	\$ Increase/(Decrease)	% Change
Other Operating Expenses				
Total	\$208,993	\$204,332	\$4,661	2.3%
Same Center	\$196,484	\$190,398	\$6,086	3.2%

The increase in other operating expenses relates to higher billing fees and charges for outside services. This comparison excludes expenses from centers that were acquired or divested subsequent to January 1, 2019. For the twelve months ended December 31, 2020, other operating expense from centers that were acquired or divested subsequent to January 1, 2019 and excluded from the above comparison was \$12.5 million. For the twelve months ended December 31, 2019, other operating expense from centers that were acquired or divested subsequent to January 1, 2019 was \$13.9 million.

## Depreciation and amortization

In Thousands	Year Ended December 31,			
	2020	2019	\$ Increase/(Decrease)	% Change
Depreciation & Amortization				
Total	\$86,795	\$80,607	\$6,188	7.7%
Same Center	\$81,337	\$75,190	\$6,147	8.2%

The increase in same center depreciation and amortization is primarily due to additional equipment and leasehold improvements placed in service in the twelve months ending December 31, 2020 compared to the same period in 2019. This comparison excludes expenses from centers that were acquired or divested subsequent to January 1, 2019. For the twelve months ended December 31, 2020, depreciation expense from centers that were acquired or divested subsequent to January 1, 2019 and excluded from the above comparison was \$5.5 million. For the twelve months ended December 31, 2019, depreciation and amortization from centers that were acquired or divested subsequent to January 1, 2019 and excluded from the above comparison was \$5.4 million.

## Loss on sale and disposal of equipment

We recorded a loss on the sale of equipment of approximately \$1.2 million and \$2.4 million for each of the twelve months ended December 31, 2020 and 2019, respectively.

## Severance Costs

We incurred total severance expense of \$4.4 million and \$1.6 million for each of the twelve months ended December 31, 2020 and 2019, respectively, an increase of \$2.7 million or 168.9%, which was related to payroll reduction charges.

## Impairment Charges

During the current year of 2020, we ceased employing certain indefinite lived trade names with a total value of \$4.2 million and they were written off in full.

We recorded impairment charges to our Imaging On Call reporting unit of \$3.9 million for the twelve months ended December 31, 2018, with goodwill representing \$3.8 million of the total and the remainder being a write off the Imaging On Call trade name of approximately \$100,000.

## Interest expense

In Thousands	Year Ended December 31,			
	2020	2019	\$ Increase/(Decrease)	% Change
Interest Expense				
Total Interest Expense	\$45,882	\$48,044	(\$2,162)	(4.5)%
Interest related to derivatives*	\$6,206	\$(1,125)		
Interest related to amortization**	\$4,413	\$4,184		
Adjusted Interest Expense***	\$35,263	\$44,985	\$(9,722)	(21.6)%

\*Includes interest on 2016 caps and 2019 swaps.

\*\*Includes combined noncash amortization of deferred loan costs and discount on issuance of debt.

\*\*\*Includes interest related to our term loans, revolving credit line, notes, finance leases and other.

The reduction in interest expense solely paid on our debt and lease obligations corresponds to lowered variable LIBOR and Prime interest rates paid on our term loan and revolving debt in reaction to market conditions surrounding COVID-19. See "Liquidity and Capital Resources" below for more details on our credit facilities.

To mitigate our future interest expense exposure the Company has entered into a forward interest rate agreements. See the Derivative Instruments section of Note 2 to the consolidated financial statements included in this annual report on Form 10-K and ITEM 7a, Quantitative and Qualitative Disclosure About Market Risk below for more details on our derivative transactions.

### ***Equity in earnings from unconsolidated joint ventures***

For the twelve months ended December 31, 2020 we recognized equity in earnings from unconsolidated joint ventures of \$7.9 million versus \$8.3 million for the twelve months ended December 31, 2019, a decrease of \$0.4 million or 4.9%, related to market conditions stemming from the COVID-19 pandemic.

### ***Non-cash change in fair value of interest rate hedge***

We recorded expense of approximately \$2.5 million for the ineffective portion of our 2019 swaps for the year ended December 31, 2020. See the Derivative Instruments section of Note 2 to the consolidated financial statements included in this annual report on Form 10-K.

### ***Gain on re-measurement valuation of pre-existing interest***

In August of 2019 we completed step-up acquisitions of two of our then equity method joint ventures, Garden State Radiology and Nulogix. Upon the fair value determination of our interests in both ventures, we recognized a step-up gain of \$0.8 million for the year ended December 31, 2019.

### ***Gain on extinguishment of debt***

In December 2020, we met the eligibility requirements for forgiveness of loans received under The Paycheck Protection Program and recorded a gain on extinguishment of debt of approximately \$4.0 million. See Note 8 Credit Facilities and Notes Payable included in this annual report on Form 10-K.

### ***Other expenses***

For the years ended December 31, 2020 and December 31, 2019 we recorded approximately \$0.1 million and \$1.3 million of other expenses respectively.

### ***Provision for income taxes***

We had a provision for income tax for the twelve months ended December 31, 2020 of \$0.9 million or 104.8% of income before income taxes, compared to a tax provision for the twelve months ended December 31, 2019 of \$6.2 million or 21.0% of income before income taxes. Income tax decreased in 2020 primarily due to the economic effects of the COVID-19 pandemic on our operations. The income tax rates for the twelve months ended December 31, 2020 diverge from the federal statutory rate due to adjustments for leasehold improvements, equity method investments, and other liabilities.

### ***Year Ended December 31, 2019 Compared to the Year Ended December 31, 2018***

For the comparison of results of operations for the year ended December 31, 2019 to the year ended December 31, 2018, please see Item 7, Management's Discussion and Analysis of Financial Condition and Operations in our Form 10-K for the year ended December 31, 2019, filed with the SEC on March 16, 2020.

### **Non-GAAP Financial Measures**

We use both GAAP and non-GAAP metrics to measure our financial results. We believe that, in addition to GAAP metrics, non-GAAP metrics such as Adjusted EBITDA and Free Cash Flow assist us in measuring our core operations from period to period as well as our cash generated from operations and ability to service our debt obligations.

#### ***Adjusted EBITDA***

Our Adjusted EBITDA metric removes non-cash and non-recurring charges that occur in the affected period and provides a basis for measuring the Company's core financial performance against other periods.

We define Adjusted EBITDA as earnings before interest, taxes, depreciation and amortization, as adjusted to exclude losses or gains on the disposal of equipment, other income or loss, loss on debt extinguishment, bargain purchase gains, loss on deconsolidation of joint ventures and non-cash equity compensation. Adjusted EBITDA includes equity earnings in unconsolidated operations and subtracts allocations of earnings to non-controlling interests in subsidiaries, and is adjusted for non-cash or one-time events that take place during the period.

Adjusted EBITDA is a non-GAAP financial measure used as an analytical indicator by us and the healthcare industry to assess business performance, and is a measure of leverage capacity and ability to service debt. Adjusted EBITDA should not be considered a measure of financial performance under GAAP, and Adjusted EBITDA should not be considered in isolation or as alternatives to net income, cash flows generated by operating, investing or financing activities or other financial statement data presented in the consolidated financial statements as an indicator of financial performance or liquidity. Adjusted EBITDA is not a measurement determined in accordance with GAAP and is therefore susceptible to varying methods of calculation and this metric, as presented, may not be comparable to other similarly titled measures of other companies.

The following is a reconciliation of the nearest comparable GAAP financial measure, net income, to Adjusted EBITDA for the years ended December 31, 2020, 2019, and 2018, respectively (in thousands):

	<b>Years Ended December 31,</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
Net (loss) income attributable to RadNet, Inc. common stockholders	\$ (14,840)	\$ 14,756	\$ 32,243
Plus provision for income taxes	895	6,229	394
Plus interest expense	45,882	48,044	43,456
Plus severance costs	4,353	1,619	1,931
Plus depreciation and amortization	86,795	80,607	72,899
Plus non-cash employee stock-based compensation	12,405	8,730	7,662
Plus loss on sale and disposal of equipment	1,200	2,383	—
Plus other expenses	120	1,283	—
Plus non-cash change in swap valuation	2,528	—	—
Plus legal settlement and related expenses	—	1,248	—
Plus gain on sale of equipment attributable to noncontrolling interest	—	—	440
Plus transaction costs EmblemHealth/ACP	—	—	681
Plus one time legal settlement	—	—	786
Plus changes in the organization of east coast and international operations	—	—	19,101
Plus loss on impairment	4,170	—	3,937
Less gain on extinguishment of debt	(4,047)	—	—
Less gain on sale and disposal of equipment	—	—	(2,054)
Less other income	—	—	(181)
Less gain on re-measurement of pre-existing interest	—	(768)	(39,539)
<b>Adjusted EBITDA</b>	<b>\$ 139,461</b>	<b>\$ 164,131</b>	<b>\$ 141,756</b>

### ***Free Cash Flow***

Another non-GAAP measure that we use is “Free Cash Flow”. We use free cash flow as an additional way of viewing our liquidity that, when viewed with our GAAP results, provides a more complete understanding of factors and trends affecting our cash flows, and consequently our ability to service debt and make capital expenditures. Free cash flow is used in addition to and in conjunction with results presented in accordance with GAAP and free cash flow should not be relied upon to the exclusion of GAAP financial measures.

We define free cash flow as Adjusted EBITDA, less capital expenditures, and less the cash portion of our interest expense. We reconcile free cash flow to “net cash flows provided by operating activities”. We use free cash flow to conduct and evaluate our business because, although it is similar to cash flow from operations, we believe it is a more conservative measure of cash flows since purchases of fixed assets and the cash portion of our interest expense are a necessary component of our ongoing operations. In limited circumstances in which proceeds from sales of fixed assets exceed purchases, free cash flow could exceed cash flow from operations. However, since we do not anticipate being a net seller of fixed assets, we expect free cash flow to be less than operating cash flows.

Free cash flow has limitations due to the fact that it does not represent the residual cash flow available for discretionary expenditures. For example, free cash flow does not incorporate payments made on capital lease obligations or cash payments for business acquisitions. Therefore, we believe it is important to view Free Cash Flow as a complement to our entire consolidated statements of cash flows.

The following table provides a reconciliation of free cash flow to “net cash flows from operations” the most directly comparable amounts reported in accordance with GAAP for the years ended December 31, 2020, 2019 and 2018 (in thousands):

**Years Ended December 31,**

	<b>2020</b>	<b>2019</b>	<b>2018</b>
Adjusted EBITDA	\$ 139,461	\$ 164,131	\$ 141,756
Less cash paid for interest	(39,521)	(46,254)	(37,016)
Less cash capital purchases <sup>(1)</sup>	(86,758)	(71,540)	(72,180)
Less new finance debt	(20)	(51)	—
Plus proceeds from sale of equipment	828	1,160	2,575
<b>Free cash flow</b>	<b>\$ 13,990</b>	<b>\$ 47,446</b>	<b>\$ 35,135</b>
<b>Free cash flow as a percent of cash flow from operations</b>	<b>6.0 %</b>	<b>45.5 %</b>	<b>30.1 %</b>

<sup>(1)</sup>Purchase of Property Plant & Equipment is adjusted for capital purchases of NJIN, which is excluded from our debt covenant calculation.

### Liquidity and Capital Resources

The following table is a summary of key balance sheet data as of December 31, 2020 and December 31, 2019 and income statement data for the twelve months ended December 31, 2020, 2019 and 2018 (in thousands):

<b>Balance Sheet Data for the period ended December 31,</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
Cash and cash equivalents	\$ 102,018	\$ 40,165	
Accounts receivable	129,585	154,763	
Working capital (exclusive of current operating lease liability)	(61,896)	(25,048)	
Stockholders' equity	258,303	233,139	
<b>Income Statement data for the twelve months ended December 31,</b>			
Total revenue	\$ 1,071,840	\$ 1,154,179	\$ 975,146
Net (loss) income attributable to RadNet common stockholders	(14,840)	14,756	32,243

We operate in a capital intensive, high fixed-cost industry that requires significant amounts of capital to fund operations. In addition to operations, we require a significant amount of capital for the initial start-up and development of new diagnostic imaging facilities, the acquisition of additional facilities and new diagnostic imaging equipment. Because our cash flows from operations have been insufficient to fund all of these capital requirements, we have depended on the availability of financing under credit arrangements with third parties.

The COVID 19 pandemic has resulted in a reduction of procedure volumes and corresponding operating revenues for the year ended December 31, 2020. We are uncertain of the duration and ultimate severity of its effects. Although we took measures to reduce operating expenses and have received government stimulus funding, we may continue to experience decreased procedure volumes during the duration of the pandemic. We have credit available from our current credit facilities and borrowing under those facilities is subject to continued compliance with lending covenants. We currently meet those requirements, but substantial and sustained operating losses could impact our ability to borrow under those facilities. If we are not able to meet such requirements, we may be required to seek additional financing and there can be no assurance that we will be able to obtain financing from other sources on terms acceptable to us, if at all.

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

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

## Sources and Uses of Cash

The following table summarizes key components of our sources and uses of cash for the twelve months ended December 31, 2020 and 2019:

Cash Flow Data	December 31, 2020	December 31, 2019
Cash provided by operating activities	\$ 233,759	\$ 104,322
Cash used in investing activities	(126,244)	(99,465)
Cash (used in) provided by financing activities	(45,561)	24,951

For cash used in investing activities for the twelve months ended December 31, 2020, we purchased property and equipment for approximately \$94.2 million, acquired imaging facilities for \$31.3 million, made an equity contributions to joint venture of \$1.6 million. We received proceeds from the sale of equipment of \$0.8 million.

The cash used in financing activities for the twelve months ended December 31, 2020 was mainly due to principal payments on our term loans.

In 2018 and 2019 we entered into factoring agreements with various institutions and sold certain accounts receivable under non-recourse agreements. These transactions are accounted for as a reduction in accounts receivable as the agreements transfer effective control over and risk related to the receivables to the buyers. Payments on the associated notes receivables will be reflected as operating activities on our statement of cash flows and on our balance sheet as prepaid expenses and other current assets for the current portion and deposits and other for the long term portion. At December 31, 2020 we have \$20.5 million, net of discount, remaining to be collected on these agreements. We do not utilize factoring arrangements as an integral part of our financing for working capital.

### Senior Credit Facilities:

We maintain secured credit facilities with Barclays Bank PLC and with SunTrust. The Barclays credit facilities are comprised of first lien term loans and a revolving credit facility. On August 28, 2020 we amended the Barclays credit facilities to increase the amount available under the revolving line of credit to \$195.0 million. The SunTrust credit facilities are comprised of a term loan and a revolving credit facility of \$30.0 million. As of December 31, 2020, we were in compliance with all covenants under our credit facilities. Deferred financing costs at December 31, 2020, net of accumulated amortization, was \$1.8 million and is specifically related to our Barclays revolving credit facility.

Included in our consolidated balance sheets at December 31, 2020 are \$601.3 million of First Lien Term Loans and \$51.4 million of SunTrust Term Loan Agreement debt for a combined total of \$652.7 million (net of unamortized discounts of \$9.7 million) in thousands:

	Face Value	Discount	Total Carrying Value
Barclays First Lien Term Loans	\$ 611,028	\$ (9,699)	\$ 601,329
SunTrust Term Loan Agreement	51,375	—	51,375
Total Term Loans	<u>\$ 662,403</u>	<u>\$ (9,699)</u>	<u>\$ 652,704</u>

We had no outstanding balance under our \$195.0 million Barclays Revolving Credit Facility at December 31, 2020 and had reserved an additional \$7.3 million for certain letters of credit. The remaining \$187.7 million of our Barclays Revolving Credit Facility was available to draw upon as of December 31, 2020. We also had no balance under our \$30.0 million SunTrust Revolving Credit Facility related to our consolidated subsidiary NJIN at December 31, 2020, and with no letters of credit reserved against the facility, the full amount was available to draw upon. At December 31, 2020 we were in compliance with all covenants under our credit facilities. For more information on our secured credit facilities see Note 8 to our consolidated financial statements in this annual report.

### Contractual Commitments

Our future obligations for notes payable, equipment under finance leases, lines of credit, equipment and building operating leases and other contractual obligations for the next five years and thereafter include (dollars in thousands):



	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>Thereafter</u>	<u>Total</u>
Notes payable <sup>(1)</sup>	\$ 43,670	\$ 44,795	\$573,938	\$ —	\$ —	\$ —	\$ 662,403
Finance leases <sup>(2)</sup>	2,654	719	14	13	4	2	3,406
Operating leases <sup>(3)</sup>	97,307	91,479	83,648	69,686	59,469	316,112	717,701
Total	<u>\$143,631</u>	<u>\$136,993</u>	<u>\$657,600</u>	<u>\$ 69,699</u>	<u>\$ 59,473</u>	<u>\$ 316,114</u>	<u>\$1,383,510</u>

<sup>(1)</sup> Includes variable rate debt for which the contractual obligation was estimated using the applicable rate at December 31, 2020.

<sup>(2)</sup> Includes interest component of finance lease obligations.

<sup>(3)</sup> Includes interest component of operating lease obligations.

We have service agreements with various vendors under which they have agreed to be responsible for the maintenance and repair of a majority of our equipment for a fee that is based on the type and age of the equipment. Under these agreements, we are committed to minimum payments of approximately \$34.0 million in 2021.

### Critical Accounting Policies

The Securities and Exchange Commission defines critical accounting estimates as those that are both most important to the portrayal of a company's financial condition and results of operations and require management's most difficult, subjective or complex judgment, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. In Note 2 to our consolidated financial statements in this annual report on Form 10-K we discuss our significant accounting policies, including those that do not require management to make difficult, subjective or complex judgments or estimates. The critical areas involving management's judgments and estimates are described below.

**USE OF ESTIMATES** - The financial statements were prepared in accordance with U.S. generally accepted accounting principles (GAAP), which requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. These estimates and assumptions affect various matters, including our reported amounts of assets and liabilities in our consolidated balance sheets at the dates of the financial statements; our disclosure of contingent assets and liabilities at the dates of the financial statements; and our reported amounts of revenues 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.

**REVENUES** – Our revenues generally relate to net patient fees received from various payors and patients themselves under contracts in which our performance obligations are to provide diagnostic services to the patients. Revenues are recorded during the period our obligations to provide diagnostic services are satisfied. Our performance obligations for diagnostic services are generally satisfied over a period of less than one day. The contractual relationships with patients, in most cases, also involve a third-party payor (Medicare, Medicaid, managed care health plans and commercial insurance companies, including plans offered through the health insurance exchanges) and the transaction prices for the services provided are dependent upon the terms provided by (Medicare and Medicaid) or negotiated with (managed care health plans and commercial insurance companies) the third-party payors. The payment arrangements with third-party payors for the services we provide to the related patients typically specify payments at amounts less than our standard charges and generally provide for payments based upon predetermined rates per diagnostic services or discounted fee-for-service rates. Management continually reviews the contractual estimation process to consider and incorporate updates to laws and regulations, changes in business and economic conditions, and the frequent changes in managed care contractual terms resulting from contract re-negotiations and renewals.

As it relates to the Group, this service fee revenue includes payments for both the professional medical interpretation revenue recognized by them as well as the payment for all other aspects related to our providing the imaging services, for which we earn management fees. As it relates to others centers, this service fee revenue is earned through providing the use of our diagnostic imaging equipment and the provision of technical services as well as providing administration services such as clerical and administrative personnel, bookkeeping and accounting services, billing and collection, provision of medical and office supplies, secretarial, reception and transcription services, maintenance of medical records, and advertising, marketing and promotional activities.

Our revenues are based upon the estimated amounts we expect to be entitled to receive from patients and third-party payors. Estimates of contractual allowances under Medicare, Medicaid, managed care and commercial insurance plans are based upon historical collection experience of the payments received from such payors in accordance with the underlying contractual agreements. Revenues related to uninsured patients and uninsured copayment and deductible amounts for patients who have health care coverage may have price concessions applied. We also record estimated implicit price concessions (based primarily on historical collection experience) related to uninsured accounts to record self-pay revenues at the estimated amounts we expect to collect.

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

**PROVIDER RELIEF FUND (COVID-19 STIMULUS FUNDING)** - The Provider Relief Fund offers government assistance to eligible providers throughout the healthcare system in support of certain expenses or lost revenue attributable to the coronavirus pandemic. In the fourth quarter of 2020, we received approximately \$0.6 million in funding and for twelve months ended December 31, 2020 we have received funding of \$26.3 million. Generally, the department of Health and Human Services (“HHS”) does not intend to recoup funds as long as a provider’s lost revenue and increased expenses exceed the amount of provider relief funding one has received. HHS reserves the right to audit Relief Fund recipients in the future to ensure that this requirement is met and collect any Relief Fund amounts that were made in error or exceed lost revenue or increased expenses due to the pandemic. Failure to comply with the terms and conditions may be grounds for recoupment. During the year ended December 31, 2020, we continued to evaluate our operating results and gave consideration to the updated reporting guidelines issued in January 2021 by the U.S. Department of Health and Human Services that significantly changed the measurement of Provider Relief Fund distributions providers are able to retain. Based on our assessment recognition of the revenue previously recognized remained appropriate.

**ACCOUNTS RECEIVABLE** - Substantially all of our accounts receivable are due under fee-for-service contracts from third party payors, such as insurance companies and government-sponsored healthcare programs, or directly from patients. Services are generally provided pursuant to one-year contracts with healthcare providers. Receivables generally are collected within industry norms for third-party payors. We continuously monitor collections from our payors and maintain an allowance for bad debts based upon specific payor collection issues that we have identified and our historical experience.

**BUSINESS COMBINATION** – We evaluate all purchases under the framework in ASU No. 2017-01 (“ASU 2017-01”), Clarifying the Definition of a Business. Once the purchase has been determined to be the acquisition of a business, we are required to recognize separately from goodwill the assets acquired and the liabilities assumed at their acquisition date fair values. Goodwill as of the acquisition date is measured as the excess of consideration transferred over the net of the acquisition date fair values of the assets acquired and the liabilities assumed. While we use our best estimates and assumptions to accurately value assets acquired and liabilities assumed at the acquisition date, our estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, we record adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to our consolidated statements of operations.

**GOODWILL AND INDEFINITE LIVED INTANGIBLES** – Goodwill totaled \$472.9 million and \$442.0 million at December 31, 2020 and December 31, 2019, respectively. Indefinite lived intangible assets at December 31, 2020 were \$7.1 million and \$11.3 million at December 31, 2019 and are associated with the value of certain trade name intangibles. Goodwill and trade name intangibles are recorded as a result of business combinations. When we determine the carrying value of a reporting unit exceeds its fair value an impairment charge would be recognized and should not exceed the total amount of goodwill allocated to that reporting unit. We test for impairment annually and in addition to that test, we regularly assess if an event has occurred which would require interim impairment testing. We considered the current and expected future economic and market conditions surrounding the novel strain of coronavirus (“COVID-19”) pandemic and during the year did not identify an indication of goodwill or trade name impairment due that event. During the year we ceased employing certain indefinite lived trade names with a total value of \$4.2 million and they were written off in full. Separate from this, our annual impairment test as of October 1, 2020 noted no other impairment, and we have not identified any indicators of impairment through December 31, 2020.

### **Significant Accounting Policies**

**DEFERRED REVENUE** - In April of 2020, we received approximately \$39.4 million in advanced Medicare payments from the Centers for Medicare and Medicaid Services (“CMS”) as part of the expanded Accelerated and Advance Payment Program under the Coronavirus Aid, Relief, and Economic Security (CARES) Act. As these payments are required to be repaid to CMS beginning 120 days after their receipt through offsets from new Medicare claims over a three month period, we have recorded amounts received to deferred revenue which will be amortized as Medicare reimbursements are earned. In addition, in May of 2020 we received \$5.0 million in advance payments from an insurance carrier with similar repayment terms as the CMS.

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

value. For net deferred tax assets we consider estimates of future taxable income, including tax planning strategies, in determining whether our net deferred tax assets are more likely than not to be realized.

**LONG-LIVED ASSETS** - We evaluate our long-lived assets (property and equipment) and intangibles, other than goodwill and indefinite lived intangibles, for impairment whenever indicators of impairment exist. To evaluate the long-lived assets our management estimates the undiscounted future cash flows expected to be derived from the asset. The accounting standards require that if the sum of the undiscounted expected future cash flows from a long-lived asset or definite-lived intangible is less than the carrying value of that asset, an asset impairment charge must be recognized. The amount of the impairment charge is calculated as the excess of the asset's carrying value over its fair value, which generally represents the discounted future cash flows from that asset or in the case of assets we expect to sell, at fair value less costs to sell. No indicators of impairment were identified with respect to our long-lived assets as of December 31, 2020.

**DEPRECIATION AND AMORTIZATION OF LONG-LIVED ASSETS** - We depreciate our long-lived assets over their estimated economic useful lives with the exception of leasehold improvements where we use the shorter of the assets useful lives or the lease term of the facility for which these assets are associated. We estimate the economic useful lives of assets, other than leasehold improvements, to be between 3 and 15 years depending on the type of asset.

**PROPERTY AND EQUIPMENT** - Property and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization of property and equipment are provided using the straight-line method over the estimated useful lives, which range from 3 to 15 years. Leasehold improvements are amortized at the lesser of lease term or their estimated useful lives, which range from 3 to 15 years. Maintenance and repairs are charged to expense as incurred.

**LEASES** - We determine if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use ("ROU") assets, current operating lease liabilities, and long term operating lease liability in our consolidated balance sheets. Finance leases are included in property and equipment, current finance lease liability, and long-term finance lease liability in our consolidated balance sheets. ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. We use the implicit rate when readily determinable. We include options to extend a lease when it is reasonably certain that we will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. For a contract in which we are a lessee that contains fixed payments for both lease and non-lease components, we have elected to account for the components as a single lease component, as permitted. For finance leases, interest expense on the lease liability is recognized using the effective interest method and amortization of the ROU asset is recognized on a straight-line basis over the shorter of the estimated useful life of the asset or the lease term. ROU assets are tested for impairment if circumstances suggest that the carrying amount may not be recoverable. Our ROU assets consist of facility and equipment assets on operating leases. No events have occurred such as fire, flood, or other acts which have impaired the integrity of our ROU assets in 2020. Our facility leases require us to maintain insurance policies which would cover major damage to our facilities. We maintain business interruption insurance to cover loss of business due to a facility becoming non-operational under certain circumstances. Our equipment leases are covered by warranty and service contracts which cover repairs and provide regular maintenance to keep the equipment in functioning order.

**EQUITY BASED COMPENSATION** - We have one long-term incentive plan that we adopted in 2006 and which we first amended and restated as of April 20, 2015, and again on March 9, 2017 (the "Restated Plan"). The Restated Plan was approved by our stockholders at our annual stockholders meeting on June 8, 2017. We have reserved for issuance under the Restated Plan 14,000,000 shares of common stock. We can issue options, stock awards, stock appreciation rights, stock units and cash awards under the Restated Plan. Certain options granted under the Restated Plan to employees are intended to qualify as incentive stock options under existing tax regulations. Stock options and warrants generally vest over three to five years and expire five to ten years from date of grant. The compensation expense associated with option grants is calculated based on a valuation model, typically the Black-Scholes model, which requires certain management assumptions with respect to volatility. The compensation expense recognized for all equity-based awards is recognized over the awards' service periods. Equity-based compensation is classified in operating expenses within the same line item as the majority of the cash compensation paid to employees. In connection with our acquisition of DeepHealth Inc. on June 1, 2020, we assumed the DeepHealth, Inc. 2017 Stock Incentive Plan, including outstanding options awards that can be exercised for our common stock. No additional awards will be granted under the DeepHealth, Inc. 2017 Equity Incentive Plan. See Note 4, Facility Acquisitions and Note 11, Stock-Based Compensation, for more information.

**COMMITMENTS AND CONTINGENCIES** - We are party to various legal proceedings, claims, and regulatory, tax or government inquiries and investigations that arise in the ordinary course of business. With respect to these matters, we evaluate the developments on a regular basis and accrue a liability when we believe a loss is probable and the amount can be reasonably estimated. We believe that the amount or any estimable range of reasonably possible or probable loss will not, either individually or in the aggregate, have a material adverse effect on our business and consolidated financial statements. However, the outcome of these

matters is inherently uncertain. Therefore, if one or more of these matters were resolved against us for amounts in excess of management's expectations, our results of operations and financial condition, including in a particular reporting period in which any such outcome becomes probable and estimable, could be materially adversely affected.

## **Recent Accounting Standards**

### ***Accounting standards adopted***

In March 2020, the FASB issued ASU 2020-04 ("ASU 2020-04"), *Reference Rate Reform (Topic 848), Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. ASU 2020-04 provides optional expedients and exceptions for applying generally accepted accounting principles to certain contract modifications and hedging relationships that reference London Interbank Offered Rate (LIBOR) or another reference rate expected to be discontinued. The guidance is effective upon issuance and generally can be applied through December 31, 2022. We are currently evaluating the potential impact of ASU 2020-04 on our financial statements.

In June 2016, the FASB issued ASU No. 2016-13 ("ASU 2016-13"), *Financial Instruments - Credit Losses*. ASU 2016-13 replaces the incurred loss methodology previously utilized for valuing financial instruments with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. We adopted the standard on January 1, 2020 using the modified retrospective approach. See the Accounts Receivable section to Note 2 for further information on our allowances for credit losses.

In August 2018, the FASB issued ASU No. 2018-15 ("ASU 2018-15"), *Intangibles-Goodwill and Other-Internal-Use Software*. ASU 2018-15 aligns the requirements for deferring implementation costs incurred in a cloud computing arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. This ASU was effective in the first quarter of 2020 with early adoption permitted and can be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. The adoption of this standard did not have a material impact on our consolidated balance sheet.

In March 2020, the FASB issued ASU 2020-03 ("ASU 2020-03"), *Codification Improvements to Financial Instruments*. The amendments in this update represent changes to clarify or improve the codification and correct unintended application. ASU 2020-03 was effective immediately upon issuance and its adoption did not have a material impact on our financial statements.

In August 2018, the FASB issued ASU No. 2018-13 ("ASU 2018-13"), *Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurements*. This standard removes, modifies and adds certain disclosures related to recurring and nonrecurring fair value measurements. We adopted ASC 2018-13 effective January 1, 2020 and it had no effect on our disclosures.

### ***Accounting standards not yet adopted***

In December 2019, the FASB issued ASU 2019-12 ("ASU 2019-12"), *Income Taxes (Topic 740)*. ASU 2019-12 removes certain exceptions related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period, and the recognition of deferred tax liabilities for outside basis differences. It also clarifies and simplifies other areas of the standard. ASU 2019-12 is effective beginning in the first quarter of 2021. Early adoption is permitted. Certain amendments in this update must be applied on a prospective basis, certain amendments must be applied on a retrospective basis, and certain amendments must be applied on a modified retrospective basis through a cumulative-effect adjustment to retained earnings/(deficit) in the period of adoption. We are currently evaluating the impact this ASU will have on our financial statements and related disclosures.

In January 2020, the FASB issued ASU 2020-01 ("ASU 2020-01"), *Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815)*, clarifying the interaction between accounting standards related to equity securities, equity method investments, and certain derivatives. ASU 2020-01 is effective for fiscal years beginning after December 15, 2020. We do not expect the adoption of this guidance will have a material impact on our financial statements.

In January 2021, the FASB issued ASU 2021-01 ("ASU 2021-01"), *Reference Rate Reform (Topic 848), Scope*. ASU 2021-01 provides clarifies the scope of Topic 848 so that derivatives affected by the discounting transition are explicitly eligible for certain option expedients and exceptions in Topic 848. The guidance is effective upon issuance and generally can be applied through December 31, 2022. We are currently evaluating the potential impact of ASU 2021-01 on our financial statements.

## **Subsequent Events**

On January 1, 2021 we entered into the Simi Valley Imaging Group, LLC, a partnership with Simi Valley Hospital and Health Services ("Simi Adventist"). The operation will offer multi-modality imaging services out of two locations in Ventura County,

California. Total investment in the venture is \$0.5 million. RadNet contributed \$0.3 million in assets for a 60% economic interest and Simi Adventist contributed assets totaling \$0.2 million for a 40% economic interest.

Over January and February 2021, we completed additional acquisitions of ZP companies in the New York City area for total purchase consideration of approximately \$53.4 million.

In March 2021, we received \$6.2 million in general distribution funds under the CARES Act.

## **Additional Information**

Additional information concerning RadNet, Inc., including our consolidated subsidiaries, for each of the years ended December 31, 2020, 2019 and 2018 is included in the consolidated financial statements and notes thereto in this annual report.

### **Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

***Foreign Currency Exchange Risk.*** We 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.

We maintain research and development facilities in Prince Edward Island, Canada and Budapest, Hungary for which expenses are paid in the local currency. Accordingly, we do have currency risk resulting from fluctuations between such local currency and the United States Dollar. At the present time, we do not have any foreign currency exchange contracts to mitigate this risk. At December 31, 2020, a hypothetical 1% decline in the currency exchange rates between the U.S. dollar against the Canadian dollar and the Hungarian Forint would have resulted in an annual increase of approximately \$27 thousand in operating expenses.

***Interest Rate Sensitivity:*** We pay interest on various types of debt instruments to our suppliers and lending institutions. The agreements entail either fixed or variable interest rates. Instruments which have fixed rates are mainly leases on radiology equipment. Variable rate interest obligations relate primarily to amounts borrowed under our outstanding credit facilities. Accordingly, our interest expense and consequently, our earnings, are affected by changes in short term interest rates. However due to our purchase of caps, described below, the effects of interest rate changes are limited.

At December 31, 2020, we had \$611.0 million outstanding subject to an adjusted Eurodollar election on First Lien Term Loans. We can elect Eurodollar or Base Rate (Prime) interest rate options on amounts outstanding under the First Lien Term Loans. At December 31, 2020, our effective 6 month LIBOR was 1.00%. A hypothetical 1% increase in the adjusted Eurodollar rates under the First Lien Credit Agreement over the current Eurodollar rate would result in an increase of \$6.1 million in annual interest expense and a corresponding decrease in income before taxes. At December 31, 2020, we had an additional \$9.7 million in debt instruments tied to the prime rate. A hypothetical 1% increase in the prime rate would result in an annual increase in interest expense of approximately \$0.1 million and a corresponding decrease in income before taxes. These amounts are determined by considering the impact of the hypothetical interest rates on the borrowing costs and swap agreements.

At December 31, 2020, we had \$51.4 million outstanding subject to an adjusted Eurodollar election on the SunTrust Restated Credit Agreement. We can elect Eurodollar or Base Rate (Prime) interest rate options on amounts outstanding under the SunTrust Restated Credit Agreement. At December 31, 2020 our effective LIBOR rate plus applicable margin was 2.22%. A hypothetical 1% increase in the adjusted Eurodollar rates under the SunTrust Restated Credit Agreement would result in an increase of approximately \$0.5 million in annual interest expense and a corresponding decrease in income before taxes.

In the second quarter of 2019, we entered into four forward interest rate agreements (“2019 Swaps”). The 2019 Swaps have total notional amounts of \$500,000,000, consisting of two agreements of \$50,000,000 each and two agreements of \$200,000,000 each. The 2019 Swaps will secure a constant interest rate associated with portions of our variable rate bank debt and have an effective date of October 13, 2020. They will mature in October 2023 for the smaller notional and October 2025 for the larger notional. Under these arrangements, we arranged the 2019 Swaps with locked in 1 month LIBOR rates at 1.96% for the \$100,000,000 notional and at 2.05% for the \$400,000,000 notional. As of the effective date, we will be liable for premium payments if interest rates decline below arranged rates, but will receive interest payments if rates remain above the arranged rates.

**Item 8. Financial Statements and Supplementary Data**

## **Report of Independent Registered Public Accounting Firm**

To the Stockholders and the Board of Directors of RadNet, Inc.

### **Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of RadNet, Inc. and subsidiaries (the Company) as of December 31, 2020 and 2019, the related consolidated statements of operations, comprehensive (loss) income, equity and cash flows for each of the three years in the period ended December 31, 2020, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company’s internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 16, 2021 expressed an unqualified opinion thereon.

### **Adoption of ASU No. 2016-02**

As discussed in Note 9 to the consolidated financial statements, the Company changed its method for accounting for leases in 2019 due to the adoption of Accounting Standards Update (ASU) No. 2016-02, Leases (Topic 842), and the related amendments.

### **Basis for Opinion**

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

### **Critical Audit Matters**

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

### ***Accounting for Revenue Recognition***

#### *Description of the Matter*

For the year ended December 31, 2020, the Company's service fee revenue was \$931.7 million. As discussed in Note 2 to the consolidated financial statements, service fee revenue is based upon the estimated amounts the Company expects to be entitled to receive from patients and third-party payors (Medicare, Medicaid, managed care health plans and commercial insurance companies). Estimates of contractual allowances and implicit price concessions associated with third-party payors and any amounts due directly from patients, are based upon historical collection experience from such payors. The contractual estimation process is periodically reviewed to consider and incorporate updates to the laws and regulations, changes in business and economic conditions and contractual terms resulting from contract negotiations and renewals. The Company also records estimated implicit price concessions (based primarily on historical collection experience) related to amounts due directly from patients to record these revenues and accounts receivable at the estimated amounts the Company expects to collect.

Auditing management's estimates of contractual allowances and implicit price concessions was complex and judgmental due to the significant data inputs and subjective assumptions utilized in determining related amounts.

#### *How We Addressed the Matter in Our Audit*

We obtained an understanding, evaluated the design, and tested the operating effectiveness of controls that address the risks of material misstatement relating to the measurement of service fee revenue. This included testing controls related to management's review of the significant assumptions and inputs used in the determination of the estimated amount that would be collected for services rendered during the period. We also tested controls over the current and historical data used by management in determining this estimate, including the completeness and accuracy of the data.

To test the estimated contractual allowances and implicit price concessions, we performed audit procedures that included, among others, assessing methodologies and evaluating the significant assumptions discussed above and testing the completeness and accuracy of the underlying data used by the Company in its estimates. We compared the significant assumptions used by management to current industry and economic trends and considered changes, if any, to the Company's business and other relevant factors. We also assessed the historical accuracy of management's estimates as a source of potential corroborative or contrary evidence.

### ***Acquisition of DeepHealth, Inc.***

#### *Description of the Matter*

As discussed in Note 4 to the consolidated financial statements, the Company completed its acquisition of DeepHealth, Inc. for net consideration of \$34.6 million on June 1, 2020. The transaction was accounted for as a business combination.

Auditing the Company's accounting for its acquisition of DeepHealth, Inc. was complex due to the significant estimation required by management in determining the fair value of in-process research and development ("IPR&D") intangible assets of \$14.5 million. The significant estimation was primarily due to the complexity of the valuation models used by management to measure the fair value of the IPR&D intangible assets and the sensitivity of the fair value estimates to the significant underlying assumptions. The Company used an income approach to measure the fair value of the IPR&D. The significant assumptions used to estimate the value of the IPR&D intangible assets included discount rates and certain assumptions that form the basis of the forecasted results (e.g., revenue growth rates, EBITDA margin and obsolescence factors). These significant assumptions are forward looking and could be affected by future economic and market conditions.



***Acquisition of DeepHealth, Inc. continued***

*How We  
Addressed the  
Matter in Our  
Audit*

We obtained an understanding, evaluated the design, and tested the operating effectiveness of controls over the Company's accounting for the acquisition. We tested controls over the recognition and measurement of consideration transferred and IPR&D intangible assets, including the valuation model and underlying assumptions used to develop such estimates.

To test the estimated fair value of the IPR&D intangible assets, we performed audit procedures that included, among others, evaluating the completeness and accuracy of the underlying data and reasonableness of significant assumptions such as revenue growth rates, EBITDA margin and obsolescence factors. For example, we compared the forecasted results, derived based on the significant assumptions discussed above, to current industry, market and economic trends, to the assumptions used in other acquisitions and to other guidelines used by companies within the same industry. We involved our valuation specialists to assist in our evaluation of the methodology used and reasonableness of the significant assumptions.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2007.  
Los Angeles, California  
March 16, 2021

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

	<b>As of December 31,</b>	
	<b>2020</b>	<b>2019</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 102,018	\$ 40,165
Accounts receivable	129,585	154,763
Due from affiliates	5,836	1,242
Prepaid expenses and other current assets	32,985	45,004
Total current assets	270,424	241,174
<b>PROPERTY, EQUIPMENT AND RIGHT-OF-USE ASSETS</b>		
Property and equipment, net	399,335	367,795
Operating lease right-of-use-assets	483,661	445,477
Total property, equipment and right-of-use-assets	882,996	813,272
<b>OTHER ASSETS</b>		
Goodwill	472,879	441,973
Other intangible assets	52,393	42,994
Deferred financing costs	1,767	1,559
Investment in joint ventures	34,528	34,470
Deferred tax assets	34,687	34,548
Deposits and other	36,983	36,996
Total assets	\$ 1,786,657	\$ 1,646,986
<b>LIABILITIES AND EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable, accrued expenses and other	\$ 236,684	\$ 207,585
Due to affiliates	14,010	14,347
Deferred revenue	39,257	1,316
Current portion of finance lease liability	2,578	3,283
Current portion of operating lease liability	65,794	61,206
Current portion of notes payable	39,791	39,691
Total current liabilities	398,114	327,428
<b>LONG-TERM LIABILITIES</b>		
Long-term finance lease liability	743	3,264
Long-term operating lease liability	463,096	420,922
Notes payable, net of current portion	612,913	652,704
Other non-current liabilities	53,488	9,529
Total liabilities	1,528,354	1,413,847
<b>EQUITY</b>		
RadNet, Inc. stockholders' equity:		
Common stock - \$.0001 par value, 200,000,000 shares authorized; 51,640,537 and 50,314,328 shares issued and outstanding at December 31, 2020 and 2019 respectively	5	5
Additional paid-in-capital	307,788	262,865
Accumulated other comprehensive loss	(24,051)	(8,026)
Accumulated deficit	(117,999)	(103,159)
Total RadNet, Inc.'s stockholders' equity	165,743	151,685
Noncontrolling interests	92,560	81,454
Total equity	258,303	233,139
Total liabilities and equity	\$ 1,786,657	\$ 1,646,986

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

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

	Years Ended December 31,		
	2020	2019	2018
<b>REVENUE</b>			
Service fee revenue	\$ 931,722	\$ 1,028,236	868,741
Revenue under capitation arrangements	140,118	125,943	106,405
Total revenue	<u>1,071,840</u>	<u>1,154,179</u>	<u>975,146</u>
Provider relief funding	26,264	—	—
<b>OPERATING EXPENSES</b>			
Cost of operations, excluding depreciation and amortization	965,902	999,692	867,547
Depreciation and amortization	86,795	80,607	72,899
Loss (gain) on sale and disposal of equipment and other	1,200	2,383	(2,054)
Loss on impairment	4,170	—	3,937
Severance costs	4,353	1,619	1,931
Total operating expenses	<u>1,062,420</u>	<u>1,084,301</u>	<u>944,260</u>
<b>INCOME FROM OPERATIONS</b>	<u>35,684</u>	<u>69,878</u>	<u>30,886</u>
<b>OTHER INCOME AND EXPENSES</b>			
Interest expense	45,882	48,044	43,456
Equity in earnings of joint ventures	(7,945)	(8,350)	(11,377)
Non-cash change in fair value of interest rate hedge	2,528	—	—
Gain on re-measurement of pre-existing interest	—	(768)	(39,539)
Gain on extinguishment of debt	(4,047)	—	—
Other expenses (income)	120	1,283	(181)
Total other expenses (income)	<u>36,538</u>	<u>40,209</u>	<u>(7,641)</u>
<b>(LOSS) INCOME BEFORE INCOME TAXES</b>	<u>(854)</u>	<u>29,669</u>	<u>38,527</u>
Provision for income taxes	(895)	(6,229)	(394)
<b>NET (LOSS) INCOME</b>	<u>(1,749)</u>	<u>23,440</u>	<u>38,133</u>
Net income attributable to noncontrolling interests	<u>13,091</u>	<u>8,684</u>	<u>5,890</u>
<b>NET (LOSS) INCOME ATTRIBUTABLE TO RADNET, INC.</b>			
<b>COMMON STOCKHOLDERS</b>	<u>\$ (14,840)</u>	<u>\$ 14,756</u>	<u>\$ 32,243</u>
<b>BASIC NET (LOSS) INCOME PER SHARE ATTRIBUTABLE TO RADNET, INC. COMMON STOCKHOLDERS</b>	<u>\$ (0.29)</u>	<u>\$ 0.30</u>	<u>\$ 0.67</u>
<b>DILUTED NET (LOSS) INCOME PER SHARE ATTRIBUTABLE TO RADNET, INC. COMMON STOCKHOLDERS</b>	<u>\$ (0.29)</u>	<u>\$ 0.29</u>	<u>\$ 0.66</u>
<b>WEIGHTED AVERAGE SHARES OUTSTANDING</b>			
Basic	<u>50,891,791</u>	<u>49,674,858</u>	<u>48,114,275</u>
Diluted	<u>50,891,791</u>	<u>50,244,006</u>	<u>48,678,999</u>

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

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

	<b>Years Ended December 31,</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
<b>NET (LOSS) INCOME</b>	\$ (1,749)	\$ 23,440	\$ 38,133
Foreign currency translation adjustments	(101)	(32)	(69)
Change in fair value of cash flow hedge, net of taxes	(19,372)	(10,253)	2,876
Change in fair value of cash flow hedge from prior periods reclassified to earnings	3,448	—	—
<b>COMPREHENSIVE (LOSS) INCOME</b>	<b>(17,774)</b>	<b>13,155</b>	<b>40,940</b>
Less comprehensive income attributable to noncontrolling interests	13,091	8,684	5,890
 <b>COMPREHENSIVE (LOSS) INCOME ATTRIBUTABLE TO RADNET, INC. COMMON STOCKHOLDERS</b>	 <b>\$ (30,865)</b>	 <b>\$ 4,471</b>	 <b>\$ 35,050</b>

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

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

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive (Loss) Income	Accumulated Deficit	Radnet, Inc. Stockholders' Equity	Noncontrolling Interests	Total Equity
	Shares	Amount						
BALANCE – JANUARY 1, 2018	<u>47,723,915</u>	<u>\$ 5</u>	<u>\$212,261</u>	<u>\$ (548)</u>	<u>\$(150,158)</u>	<u>\$ 61,560</u>	<u>\$ 8,365</u>	<u>\$ 69,925</u>
Issuance of stock upon exercise of options	10,000	—	20	—	—	20	—	20
Stock-based compensation	713,160	—	7,719	—	—	7,719	—	7,719
Forfeiture of restricted stock	(1,150)	—	(7)	—	—	(7)	—	(7)
Issuance of stock for acquisitions	531,560	—	8,000	—	—	8,000	—	8,000
Sale to noncontrolling interests, net of taxes	—	—	11,991	—	—	11,991	22,666	34,657
Special distribution from noncontrolling interest	—	—	2,894	—	—	2,894	(9,175)	(6,281)
Purchase of noncontrolling interests	—	—	(43)	—	—	(43)	(157)	(200)
Contributions from noncontrolling interests	—	—	—	—	—	—	2,640	2,640
Distributions paid to noncontrolling interests	—	—	—	—	—	—	(1,427)	(1,427)
Re-measurement of noncontrolling interest upon change in control	—	—	—	—	—	—	44,267	44,267
Change in cumulative foreign currency translation adjustment	—	—	—	(69)	—	(69)	—	(69)
Change in fair value cash flow hedge, net of taxes	—	—	—	2,876	—	2,876	—	2,876
Net income	—	—	—	—	32,243	32,243	5,890	38,133
BALANCE - DECEMBER 31, 2018	<u>48,977,485</u>	<u>\$ 5</u>	<u>\$242,835</u>	<u>\$ 2,259</u>	<u>\$(117,915)</u>	<u>\$ 127,184</u>	<u>\$ 73,069</u>	<u>\$200,253</u>
Issuance of stock upon exercise of options	12,500	—	75	—	—	75	—	75
Stock-based compensation	771,042	—	8,735	—	—	8,735	—	8,735
Forfeiture of restricted stock	(1,500)	—	(5)	—	—	(5)	—	(5)
Non-cash severance	12,692	—	188	—	—	188	—	188
Issuance of stock for acquisitions	542,109	—	7,500	—	—	7,500	—	7,500
Sale to noncontrolling interests, net of taxes	—	—	3,537	—	—	3,537	2,008	5,545
Contributions from noncontrolling interests	—	—	—	—	—	—	750	750
Distributions paid to noncontrolling interests	—	—	—	—	—	—	(3,057)	(3,057)
Change in cumulative foreign currency translation adjustment	—	—	—	(32)	—	(32)	—	(32)

Change in fair value cash flow hedge, net of taxes	—	—	—	(10,253)	—	(10,253)	—	(10,253)
Net income	—	—	—	—	14,756	14,756	8,684	23,440
BALANCE - DECEMBER 31, 2019	<u>50,314,328</u>	<u>\$ 5</u>	<u>\$262,865</u>	<u>\$ (8,026)</u>	<u>\$(103,159)</u>	<u>\$ 151,685</u>	<u>\$ 81,454</u>	<u>\$233,139</u>
Shares issued under the equity compensation plan	491,674	—	—	—	—	—	—	—
Issuance of common stock under the DeepHealth equity compensation plan	10,920	—	—	—	—	—	—	—
Stock-based compensation expense	—	—	12,463	—	—	12,463	—	12,463
Issuance of common stock for sale of unregistered securities for the DeepHealth acquisition	823,615	—	33,011	—	—	33,011	—	33,011
Tax effect on gain on sale of noncontrolling interest	—	—	(551)	—	—	(551)	—	(551)
Distributions paid to noncontrolling interests	—	—	—	—	—	—	(1,985)	(1,985)
Change in cumulative foreign currency translation adjustment	—	—	—	(101)	—	(101)	—	(101)
Change in fair value cash flow hedge, net of taxes	—	—	—	(19,372)	—	(19,372)	—	(19,372)
Change in fair value of cash flow hedge from prior periods reclassified to earnings	—	—	—	3,448	—	3,448	—	3,448
Net loss	—	—	—	—	(14,840)	(14,840)	13,091	(1,749)
BALANCE - DECEMBER 31, 2020	<u>51,640,537</u>	<u>\$ 5</u>	<u>\$307,788</u>	<u>\$ (24,051)</u>	<u>\$(117,999)</u>	<u>\$ 165,743</u>	<u>\$ 92,560</u>	<u>\$258,303</u>

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

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

	Years Ended December 31,		
	2020	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net (loss) income	\$ (1,749)	\$ 23,440	\$ 38,133
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	86,795	80,607	72,899
Amortization of operating lease right-of-use assets	67,915	66,842	—
Equity in earnings of joint ventures, net of dividends	1,577	248	13,469
Amortization and write off of deferred financing costs and loan discount	4,413	4,184	3,898
Loss (gain) on sale and disposal of equipment and other	1,200	2,383	(2,054)
Gain on extinguishment of debt	(4,047)	—	—
Gain on re-measurement of pre-existing interest	—	(768)	(39,539)
Loss on impairment	4,170	—	3,937
Amortization of cash flow hedge	3,448	—	—
Non-cash change in fair value of interest rate hedge	2,528	—	—
Stock-based compensation	12,405	8,730	7,662
Other non cash item in other expenses	242	(371)	—
Change in value of contingent consideration	—	(3,123)	1,749
Changes in operating assets and liabilities, net of assets acquired and liabilities assumed in purchase transactions:			
Accounts receivable	25,206	(17,482)	2,145
Other current assets	6,588	(3,557)	(9,248)
Other assets	(5,425)	(2,326)	(1,687)
Deferred taxes	(611)	(3,888)	(6,935)
Operating lease liability	(53,906)	(66,831)	—
Deferred rent	—	—	6,312
Deferred revenue	37,941	(1,082)	(208)
Accounts payable, accrued expenses and other liabilities	45,069	17,316	26,221
Net cash provided by operating activities	<u>233,759</u>	<u>104,322</u>	<u>116,754</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of imaging facilities	(31,265)	(27,150)	(73,192)
Equity investments at fair value	—	(143)	(2,200)
Purchase of property and equipment	(94,172)	(74,153)	(72,180)
Proceeds from sale of equipment	828	1,160	2,575
Proceeds from the sale of equity interests in a joint venture	—	132	—
Proceeds from sale of internal use software	—	—	248
Nulogix return of capital	—	792	—
Equity contributions in existing and purchase of interest in joint ventures	(1,635)	(103)	(2,000)
Net cash used in investing activities	<u>(126,244)</u>	<u>(99,465)</u>	<u>(146,749)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Principal payments on notes and leases payable	(3,562)	(6,494)	(6,072)
Payments on term loan debt	(43,296)	(40,742)	(33,830)
Additional deferred finance costs on revolving loan amendment	(741)	—	—
Proceeds from debt issuance, net of issuance costs	—	97,144	—
Proceeds from paycheck protection program loans	4,023	—	—
Distributions paid to noncontrolling interests	(1,985)	(3,057)	(1,427)
Proceeds from sale of noncontrolling interest	—	5,275	—
Contributions from noncontrolling partners	—	750	2,640
Proceeds from revolving credit facility	250,900	261,200	204,300
Payments on revolving credit facility	(250,900)	(289,200)	(176,300)
Purchase of noncontrolling interests	—	—	(200)
Proceeds from issuance of common stock upon exercise of options	—	75	20
Net cash (used in) provided by financing activities	<u>(45,561)</u>	<u>24,951</u>	<u>(10,869)</u>
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>	<b>(101)</b>	<b>(32)</b>	<b>(69)</b>
<b>NET INCREASE (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>61,853</b>	<b>29,776</b>	<b>(40,933)</b>
<b>CASH AND CASH EQUIVALENTS, beginning of period</b>	<b>40,165</b>	<b>10,389</b>	<b>51,322</b>
<b>CASH AND CASH EQUIVALENTS, end of period</b>	<b>\$ 102,018</b>	<b>\$ 40,165</b>	<b>\$ 10,389</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>			
Cash paid during the period for interest	\$ 39,521	\$ 46,254	\$ 37,016
Cash paid during the period for income taxes	\$ 5,069	\$ 5,884	\$ 4,933

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

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

**Supplemental Schedule of Non-Cash Investing and Financing Activities**

We acquired equipment and certain leasehold improvements for approximately \$52.0 million, \$51.7 million, and \$47.8 million during the years ended December 31, 2020, 2019 and 2018, respectively, that we had not paid for as of December 31, 2020, 2019 and 2018, respectively. The offsetting amount due was recorded in our consolidated balance sheets under “accounts payable, accrued expenses and other.”

We executed inclusive of all acquisitions, finance lease liability/capital lease debt of approximately \$20.0 thousand, \$0.1 million, and \$6.7 million during the twelve months ended December 31, 2020, 2019, and 2018.

On June 1, 2020, we completed our stock purchase of DeepHealth, Inc. by issuing 823,615 shares of our common stock to purchase all of DeepHealth’s shares and share equivalents. The shares were assigned a value of \$13.9 million. See Note 4, Facility Acquisitions and Dispositions, to the consolidated financial statements contain herein for further information.

On August 1, 2019 we issued RadNet common stock in the amount of \$1.5 million to acquire a 75% controlling interest in our formerly owned joint venture Nulogix. See Note 4, Facility Acquisitions and Dispositions, to the consolidated financial statements contain herein for further information.

On August 1, 2019 we completed a step-up acquisition upon the dissolution of our former 49% owned joint venture, Garden State Radiology LLC (“GSRN”). We made a fair value determination of our original 49% interest which resulted in a step-up gain of approximately \$1.3 million. See Note 4, Facility Acquisitions and Dispositions, for further information.

We transferred approximately \$4.3 million in net assets to our new joint venture, Ventura County Imaging Group. LLC in March 2019. See Note 4, Facility Acquisitions and Dispositions, for further information.

On February 27, 2019, we issued 440,207 shares of our common stock to the sellers of Hudson Valley Radiology Associates, P.L.L.C. (“HVRA”) which permitted our variable interest entity, Lenox Hill Radiology and Medical Imaging Associates, P.C., to complete its purchase of the membership interest of HVRA. The shares were ascribed a value of \$6.0 million. We also recorded contingent consideration valued at \$0.7 million to guarantee the share value issued for a period of six months post acquisition date, which was taken to income upon the completion of the time period. See Note 4, Facility Acquisitions and Dispositions, to the consolidated financial statements contain herein for further information.

On October 1, 2018, we obtained control over the operations of New Jersey Imaging Network (NJIN) through an agreement with the other equity interest holder for no cash consideration. As such, we consolidated the financial statements of NJIN effective as of that date and recognized fair value of non controlling interest of \$44.3 million on the date of the transaction. We remeasured our pre-existing 49% equity interest in NJIN upon consolidation and recognized a non cash gain of \$39.5 million. We also obtained control of \$5.4 million cash in NJIN as a result of such consolidation. The economic interest of each party remained the same after consolidation. See Note 4, Facility Acquisitions and Dispositions, to the consolidated financial statements contain herein for further information.

On October 1, 2018 we acquired Medical Arts Radiology for cash consideration of \$50.9 million, the assumption of \$2.7 million in equipment debt, and \$8.0 million in RadNet common stock. As part of the transaction, we recorded a contingent liability of approximately \$0.7 million to guarantee the sellers stock price stability for a period of one year from the date of acquisition. For the year ended December 31, 2018 we recorded a \$1.7 million charge to record the contingent liability at fair market value. For the year ended December 31, 2019, we recorded \$2.4 million to income to resolve the fair market value charge recorded at December 31, 2019 and the original contingent liability at purchase. See Note 4, Facility Acquisitions and Dispositions, to the consolidated financial statements contain herein for further information.

The Company received a one-time special distribution from a controlled subsidiary which resulted in a \$9.2 million adjustment to noncontrolling interest and \$3.0 million, net of taxes, to the Company’s additional paid in capital account in September 2018.

The Company received \$15.0 million in fixed assets and assumed \$4.0 million in capital lease debt in January 2018 from the Company’s partner in Beach Imaging LLC. See Note 4, Facility Acquisitions and Dispositions contained herein for further information.



**RADNET, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 – NATURE OF BUSINESS**

We are a national provider of freestanding, fixed-site outpatient diagnostic imaging services in the United States. At December 31, 2020, we operated directly or indirectly through joint ventures with hospitals, 331 centers located in Arizona, California, Delaware, Florida, Maryland, New Jersey, and New York. Our centers provide physicians with imaging capabilities to facilitate the diagnosis and treatment of diseases and disorders. Our services include magnetic resonance imaging (MRI), computed tomography (CT), positron emission tomography (PET), nuclear medicine, mammography, ultrasound, diagnostic radiology (X-ray), fluoroscopy and other related procedures. The vast majority of our centers offer multi-modality imaging services. Our multi-modality strategy diversifies revenue streams, reduces exposure to reimbursement changes and provides patients and referring physicians one location to serve the needs of multiple procedures. In addition to our imaging services, we have certain other software subsidiaries which design and sell computerized systems for the imaging industry and internally develop Artificial Intelligence suites to enhance interpretation of radiographic images. Our operations comprise a single segment for financial reporting purposes.

The consolidated financial statements include the accounts of RadNet, Inc as well as its subsidiaries in which RadNet has a controlling financial interest. The consolidated financial statements also include certain variable interest entities in which we are the primary beneficiary (as described in more detail below). All material intercompany transactions and balances have been eliminated upon consolidation. All of these affiliated entities are referred to collectively as “RadNet”, “we”, “us”, “our” or the “Company” in this report.

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

VIEs that we consolidate as the primary beneficiary consist of professional corporations which are owned or controlled by individuals within our senior management, namely Howard G. Berger, M.D., our President and Chief Executive Officer, and John V. Crues, III, M.D., RadNet’s Medical Director; both of whom are members of our Board of Directors. Dr. Berger owns, indirectly, 99% of the equity interests in Beverly Radiology Medical Group III (BRMG) and a controlling interest in two professional corporations in New York City. BRMG is responsible for the professional medical services at nearly all of our facilities located in California. Dr. Crues owns six professional corporations which provide medical services in Delaware, Maryland, New Jersey and New York. Additionally, Dr. Crues is a 1% owner of BRMG. These VIEs are collectively referred to as the consolidated medical group (“the Group”).

RadNet provides non-medical, technical and administrative services to the Group for which it receives a management fee, pursuant to the related management agreements. Through the management agreements we have exclusive authority over all non-medical decision making related to the ongoing business operations and we determine the annual budget. The Group has insignificant operating assets and liabilities, and de minimis equity. Through management agreements with us, substantially all cash flows of the Group after expenses, including professional salaries, are transferred to us. We consolidate the revenue and expenses, assets and liabilities of the Group.

The Group on a combined basis recognized \$147.6 million, \$157.4 million, and \$132.9 million of revenue, net of management services fees to RadNet, for the years ended December 31, 2020, 2019, and 2018, respectively and \$147.6 million, \$157.4 million, and \$132.9 million of operating expenses for the years ended December 31, 2020, 2019, and 2018, respectively. RadNet, Inc. recognized \$600.7 million, \$618.9 million, and \$505.2 million of total billed net service fee revenue for the years ended December 31, 2020, 2019, and 2018, respectively, for management services provided to them relating primarily to the technical portion of billed revenue.

The cash flows of the Group are included in the accompanying consolidated statements of cash flows. All intercompany balances and transactions have been eliminated in consolidation. In our consolidated balance sheets at December 31, 2020 and December 31, 2019, we have included approximately \$82.3 million and \$100.3 million, respectively, of accounts receivable and approximately \$15.2 million and \$7.0 million of accounts payable and accrued liabilities related to the Group, respectively.

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

We also own a 49% economic interest in ScriptSender, LLC, which provides secure data transmission services of medical information. Through a management agreement, RadNet provides management and accounting services and receives an agreed upon fee. ScriptSender LLC is dependent on the Company to finance its own activities, and as such we determined that it is a VIE but we are not a primary beneficiary since we do not have the power to direct the activities of the entity that most significantly impact the entity's economic performance.

At all of our centers not serviced by the Group we have entered into long-term contracts (typically 10 to 40 years in length) with independent radiology groups to provide physician services at those centers. These radiology practices provide professional services, including supervision and interpretation of diagnostic imaging procedures, in our diagnostic imaging centers. The radiology practices maintain full control over the provision of professional services. Under these arrangements, in addition to obtaining technical fees for the use of our diagnostic imaging equipment and the provision of technical services, we provide management services and receive a fee based on the value of the services we provide. We own the diagnostic imaging equipment and, therefore, receive 100% of the technical reimbursements associated with imaging procedures. The radiology practice groups retain the professional reimbursements associated with imaging procedures after deducting management service fees paid to us and we have no economic controlling interest in these radiology practices. As such, the financial results of these practices are not consolidated in our financial statements.

## **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**PRINCIPLES OF CONSOLIDATION** – The operating activities of subsidiaries are included in the accompanying consolidated financial statements (“financial statements”) from the date of acquisition. Investments in companies in which we have the ability to exercise significant influence, but not control, are accounted for by the equity method. All intercompany transactions and balances, with our consolidated entities and the unsettled amount of intercompany transactions with our equity method investees, have been eliminated in consolidation. As stated in Note 1 above, the Group consists of VIEs and we consolidate the operating activities and balance sheets of each. Additionally, we determined that our unconsolidated joint venture, ScriptSender, LLC, is also a VIE as it is dependent on our operational funding but we are not a primary beneficiary since RadNet does not have the power to direct the activities of the entity that most significantly impact the entity's economic performance.

**USE OF ESTIMATES** - The financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP), which requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. These estimates and assumptions affect various matters, including our reported amounts of assets and liabilities in our consolidated balance sheets at the dates of the financial statements; our disclosure of contingent assets and liabilities at the dates of the financial statements; and our reported amounts of revenues 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.

**RECLASSIFICATION** - For the year 2019, we have reclassified certain amounts previously classified as held for sale related to property and equipment and goodwill to conform to our 2020 presentation.

**REVENUES** – Our revenues generally relate to net patient fees received from various payors and patients themselves under contracts in which our performance obligations are to provide diagnostic services to the patients. Revenues are recorded during the period when our obligations to provide diagnostic services are satisfied. Our performance obligations for diagnostic services are generally satisfied over a period of less than one day. The contractual relationships with patients, in most cases, also involve a third-party payor (Medicare, Medicaid, managed care health plans and commercial insurance companies, including plans offered through the health insurance exchanges) and the transaction prices for the services provided are dependent upon the terms provided by (Medicare and Medicaid) or negotiated with (managed care health plans and commercial insurance companies) the third-party payors. The payment arrangements with third-party payors for the services we provide to the related patients typically specify payments at amounts less than our standard charges and generally provide for payments based upon predetermined rates per diagnostic services or discounted fee-for-service rates. Management continually reviews the contractual estimation process to consider and incorporate updates to laws and regulations and the frequent changes in managed care contractual terms resulting from contract renegotiations and renewals.

As it relates to the Group, this service fee revenue includes payments for both the professional medical interpretation revenue recognized by them as well as the payment for all other aspects related to our providing the imaging services, for which we earn management fees. As it relates to others centers, this service fee revenue is earned through providing the use of our diagnostic imaging equipment and the provision of technical services as well as providing administration services such as clerical and

administrative personnel, bookkeeping and accounting services, billing and collection, provision of medical and office supplies, secretarial, reception and transcription services, maintenance of medical records, and advertising, marketing and promotional activities.

Our revenues are based upon the estimated amounts we expect to be entitled to receive from patients and third-party payors. Estimates of contractual allowances under Medicare, Medicaid, managed care and commercial insurance plans are based upon historical collection experience of the payments received from such payors in accordance with the underlying contractual agreements. Revenues related to uninsured patients and uninsured copayment and deductible amounts for patients who have health care coverage may have price concessions applied. We also record estimated implicit price concessions (based primarily on historical collection experience) related to uninsured accounts to record self-pay revenues at the estimated amounts we expect to collect.

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

On January 1, 2018, we adopted the new revenue recognition accounting standard issued by the Financial Accounting Standards Board (“FASB”) and codified in the ASC as topic 606 (“ASC 606”). The revenue recognition standard in ASC 606 outlines a single comprehensive model for recognizing revenue as performance obligations, defined in a contract with a customer as goods or services transferred to the customer in exchange for consideration, are satisfied. The standard also requires expanded disclosures regarding our revenue recognition policies and significant judgments employed in the determination of revenue.

Our total net revenues for the years ended December 31, 2020, 2019, and 2018 are presented in the table below (in thousands):

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Commercial insurance	\$ 584,035	\$ 642,341	\$ 542,011
Medicare	217,928	237,427	192,881
Medicaid	25,619	28,283	25,615
Workers’ compensation/personal injury	33,478	42,792	34,193
Other patient revenue	25,314	23,862	25,117
Management fee revenue	11,253	11,659	13,882
Imaging on call and software	10,798	17,317	16,261
Other	23,297	24,555	18,781
Service fee revenue	931,722	1,028,236	868,741
Revenue under capitation arrangements	140,118	125,943	106,405
Total revenue	<u>\$ 1,071,840</u>	<u>\$ 1,154,179</u>	<u>\$ 975,146</u>

**COVID-19 PANDEMIC AND CARES ACT FUNDING** - On March 11, 2020 the World Health Organization (WHO) designated COVID-19 as a global pandemic. Patient volumes and the related revenues for our services were significantly impacted during the latter portion of the first quarter through the middle of the third quarter of 2020 as a result of federal, state and local government mandated restrictions requiring many people to remain at home and forced the closure of or limitations on certain businesses, as well as suspended elective procedures by health care facilities. Many of these restrictions have been eased or completely lifted across the states the Company operates in however, we are unable to predict the future impact of the pandemic on our operations.

During the twelve months ended December 31, 2020, we received \$43.2 million of accelerated Medicare payments, \$5.0 million from Blue Shield, \$26.3 million from the general distribution and \$4.0 million from the Paycheck Protection Program established through the Coronavirus Aid, Relief and Economic Security (“CARES”) Act. The accelerated Medicare payments are recorded under the caption “Deferred Revenue” in our consolidated balance sheet and will be withheld from reimbursements for services in 2021 and 2022. The general distribution funds were accounted for as government grants and recognized as other revenue, once reasonable assurance that the applicable terms and conditions required to retain the funds were met, under the caption “Provider relief funding” in our Consolidated Statements of Operations.

The CARES Act also provides for a payment deferral of the employer portion of Social Security tax incurred during the pandemic, allowing half of such payroll taxes to be deferred until December 2021 and the remaining half until December 2022. At December 31, 2020, the Company had deferred \$16.3 million of Social Security taxes. These payment deferrals are recorded as payroll tax liability under the caption “Accounts payable, accrued expenses and other” in our consolidated balance sheet.

We believe the extent of the COVID-19 pandemic’s impact on our operating results and financial condition has been and will continue to be driven by many factors, most of which are beyond our control and ability to forecast. Such factors include, but

are not limited to, the scope and duration of stay-at-home practices, business closures and restrictions, suspensions of elective procedures and continued decline in procedure volumes for an indeterminable length of time and incremental expenses required for supplies and personal protective equipment. Because of these uncertainties, we cannot estimate the length or impact of the pandemic on our business. If we incur declines in cash flows and results of operations, such declines could have an impact on the inputs and assumptions used in significant accounting estimates, including implicit price concessions related to uninsured patient accounts, and potential impairment of goodwill and long-lived assets. During the fourth quarter of 2020, procedure volumes continued to increase and have had a positive impact on our patient revenue. However, the impact of COVID-19 in future periods may vary and could adversely impact our results of operations.

**ACCOUNTS RECEIVABLE** – Substantially all of our accounts receivable are due under fee-for-service contracts from third party payors, such as insurance companies and government-sponsored healthcare programs, or directly from patients. We continuously monitor collections from our payors and record an estimated price concession based upon specific payor collection issues that we have identified and our historical experience.

We have entered into factoring agreements with various institutions and sold certain accounts receivable under non-recourse agreements. These transactions are accounted for as a reduction in accounts receivable as the agreements transfer effective control over and risk related to the receivables to the buyers. The aggregate amounts factored under these facilities, net of discounts recorded to reflect market interest rates is \$29.5 million. Proceeds are reflected as operating activities on our statement of cash flows and on our balance sheet as prepaid expenses and other current assets for the current portion and deposits and other for the long term portion. At December 31, 2020 we have \$20.5 million remaining to be collected on these agreements. We do not utilize factoring arrangements as an integral part of our financing for working capital.

**SOFTWARE REVENUE RECOGNITION** – Our software division has developed and sells Picture Archiving Communications Systems (“PACS”) and related services. The PACS sales are made primarily through our sales force and generally include hardware, software, installation, training and first-year warranty support. Hardware which is not unique or special purpose, is purchased from a third-party and resold to customers with a small mark-up.

We have determined that our core software products, such as PACS, are essential to most of our arrangements as hardware, software and related services are sold as an integrated package. Revenue is recognized when a performance obligation is satisfied by transferring a promised good or service to a customer.

For the years ended December 31, 2020, 2019 and 2018, we recorded approximately \$8.6 million, \$10.1 million, and \$6.8 million, respectively, in revenue related to our software business which is included in net service fee revenue in our consolidated statement of operations. At December 31, 2020 we had deferred revenue of approximately \$1.2 million associated with these sales which we expect to recognize into revenue over the next 12 months.

**SOFTWARE DEVELOPMENT COSTS** – When we develop our own software and artificial intelligence solutions we capitalize and amortize those costs over their useful life. Costs related to the research and development of new software products and enhancements to existing software intended for resale to our customers are expensed as incurred.

**CONCENTRATION OF CREDIT RISKS** – Financial instruments that potentially subject us to credit risk are primarily cash equivalents and accounts receivable. We have placed our cash and cash equivalents with one major financial institution. At times, the cash in the financial institution is temporarily in excess of the amount insured by the Federal Deposit Insurance Corporation, or FDIC. Substantially all of our accounts receivable are due under fee-for-service contracts from third party payors, such as insurance companies and government-sponsored healthcare programs, or directly from patients. We continuously monitor collections and maintain an allowance for bad debts based upon our historical collection experience. In addition, we have notes receivable stemming from our factoring of accounts receivable as stated above. Companies with which we factor our receivables are well known established buyers of such instruments, have agreed to assume the full risk of their collection, and to date have made all payments due to us in a timely manner.

**CASH AND CASH EQUIVALENTS** – We consider all highly liquid investments that mature in three months or less when purchased to be cash equivalents. The carrying amount of cash and cash equivalents approximates the fair market value.

**DEFERRED FINANCING COSTS** – Costs of financing are deferred and amortized using the effective interest rate method. Deferred financing costs are solely related to our Barclays Revolving Credit Facilities. Deferred financing costs, net of accumulated amortization, were \$1.8 million and \$1.6 million for the twelve months ended December 31, 2020 and 2019, respectively. See Note 8, Revolving Credit Facility, Notes Payable, and Capital Leases for more information on our revolving lines of credit.

**PROPERTY AND EQUIPMENT** – Property and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization of property and equipment are provided using the straight-line method over the

estimated useful lives, which range from 3 to 15 years. Leasehold improvements are amortized at the lesser of lease term or their estimated useful lives, which range from 3 to 15 years. Maintenance and repairs are charged to expense as incurred.

**BUSINESS COMBINATION** – When the qualifications for business combination accounting treatment are met, it requires us to recognize separately from goodwill the assets acquired and the liabilities assumed at their acquisition date fair values. Goodwill as of the acquisition date is measured as the excess of consideration transferred over the net of the acquisition date fair values of the assets acquired and the liabilities assumed. While we use our best estimates and assumptions to accurately value assets acquired and liabilities assumed at the acquisition date, our estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, we record adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to our consolidated statements of operations.

**GOODWILL AND INDEFINITE LIVED INTANGIBLES** – Goodwill totaled \$472.9 million and \$442.0 million at December 31, 2020 and December 31, 2019, respectively. Indefinite lived intangible assets at December 31, 2020 were \$7.1 million and \$11.3 million at December 31, 2019 and are associated with the value of certain trade name intangibles. Goodwill and trade name intangibles are recorded as a result of business combinations. When we determine the carrying value of goodwill exceeds its fair value, an impairment charge would be recognized which should not exceed the total amount of goodwill allocated to that reporting unit. We determined fair values for each of the reporting units using the market approach, when available and appropriate, or the income approach, or a combination of both. We assess the valuation methodology based upon the relevance and availability of the data at the time we perform the valuation. If multiple valuation methodologies are used, the results are weighted appropriately.

We tested both goodwill and trade name intangibles for impairment on October 1, 2020. However, during the year we ceased employing certain indefinite lived trade names with a total value of \$4.2 million and they were written off in full. Separate from this, our annual impairment test as of October 1, 2020 noted no other impairment, and we have not identified any indicators of impairment through December 31, 2020.

During the testing of goodwill and trade name intangibles at October 1, 2018, our Teleradiology reporting unit, Imaging On Call, (IOC), experienced a reduction of professional medical group clients and a loss of a contract with a major local health provider during 2018. This affected its estimated fair value and resulted in impairment charges to our reporting unit of \$3.9 million for the twelve months ended December 31, 2018, with goodwill representing \$3.8 million of the total and the remainder being its trade name of approximately \$0.1 million. The estimated fair value of IOC reporting unit was determined by using the discounted cash flow method.

**LONG-LIVED ASSETS** – We evaluate our long-lived assets (property and equipment) and intangibles, other than goodwill, for impairment when events or changes indicate the carrying amount of an asset may not be recoverable. Accounting standards requires that if the sum of the undiscounted expected future cash flows from a long-lived asset or definite-lived intangible is less than the carrying value of that asset, an asset impairment charge must be recognized. The amount of the impairment charge is calculated as the excess of the asset's carrying value over its fair value, which generally represents the discounted future cash flows from that asset or in the case of assets we expect to sell, at fair value less costs to sell. We determined that there were no events or changes in circumstances that indicated our long-lived assets were impaired during any periods presented.

**INCOME TAXES** – Income tax expense is computed using an asset and liability method and using expected annual effective tax rates. Under this method, deferred income tax assets and liabilities result from temporary differences in the financial reporting bases and the income tax reporting bases of assets and liabilities. The measurement of deferred tax assets is reduced, if necessary, by the amount of any tax benefit that, based on available evidence, is not expected to be realized. When it appears more likely than not that deferred taxes will not be realized, a valuation allowance is recorded to reduce the deferred tax asset to its estimated realizable value. For net deferred tax assets we consider estimates of future taxable income in determining whether our net deferred tax assets are more likely than not to be realized. Income taxes are further explained in Note 10, Income Taxes.

**LEASES** - We determine if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use (“ROU”) assets, current operating lease liability, and long term operating lease liability in our consolidated balance sheets. Finance leases are included in property and equipment, current finance lease liability, and long-term finance lease liability in our consolidated balance sheets. ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. We use the implicit rate when readily determinable. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate (“IBR”) based on the information available at commencement date in determining the present value of lease payments. Our IBR used to discount the stream of lease payments is closely related to the interest rates charged on our collateralized debt obligations and is adjusted when those rates experience a substantial change. We include options to extend a lease when it is reasonably certain that we will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. For a contract in which we

are a lessee that contains fixed payments for both lease and non-lease components, we have elected to account for the components as a single lease component, as permitted. For finance leases, interest expense on the lease liability is recognized using the effective interest method and amortization of the right-of-use asset is recognized on a straight-line basis over the shorter of the estimated useful life of the asset or the lease term. ROU assets are tested for impairment if circumstances suggest that the carrying amount may not be recoverable. Our ROU assets consist of facility and equipment assets on operating leases. No events have occurred which have impaired the integrity of our ROU assets in 2020. Our facility leases require us to maintain insurance policies which would cover major damage to our facilities. We maintain business interruption insurance to cover loss of business due to a facility becoming non-operational under certain circumstances. Our equipment leases are covered by warranty and service contracts which cover repairs and provide regular maintenance to keep the equipment in functioning order. See Note 9, Leases, for more information.

**UNINSURED RISKS** – On November 1, 2008 we obtained a fully funded and insured workers’ compensation policy, thereby eliminating any uninsured risks for employee injuries occurring on or after that date. This fully funded policy remained in effect through November 1, 2013 and continues to cover any claims incurred through this date.

On November 1, 2013 we entered into a high-deductible workers’ compensation insurance policy. We have recorded liabilities of \$4.1 million and \$3.8 million for each of the years ending December 31, 2020 and December 31, 2019, respectively, for the estimated future cash obligations associated with the unpaid portion of the workers compensation claims incurred.

We and our affiliated physicians carry an annual medical malpractice insurance policy that protects us for claims that are filed during the policy year and that fall within policy limits. The policy has a deductible which is \$10,000 per incidence for the years ended December 31, 2020 and December 31, 2019, respectively.

In December 2008, in order to eliminate the exposure for claims not reported during the regular malpractice policy period, we purchased a medical malpractice claims made tail policy, which provides coverage for any claims reported in the event that our medical malpractice policy expires. As of December 31, 2020, this policy remains in effect.

We have entered into an arrangement with Blue Shield to administer and process claims under a self-insured plan that provides health insurance coverage for our employees and dependents. We have recorded liabilities as of December 31, 2020 and 2019 of \$6.6 million and \$4.9 million, respectively, for the estimated future cash obligations associated with the unpaid portion of the medical and dental claims incurred by our participants. Additionally, we entered into an agreement with Blue Shield for a stop loss policy that provides coverage for any claims that exceed \$250,000 up to a maximum of \$1.0 million in order for us to limit our exposure for unusual or catastrophic claims.

**EMPLOYEE BENEFIT PLAN** – We adopted a profit-sharing/savings plan pursuant to Section 401(k) of the Internal Revenue Code that covers substantially all non-professional employees. Eligible employees may contribute on a tax-deferred basis a percentage of compensation, up to the maximum allowable under tax law. Employee contributions vest immediately. We can elect to provide a matching contribution in the amount to a maximum of 1.0% per 4.0% of employee contribution, and have done so since 2017. We contributed \$2.9 million in matching for the year ended December 31, 2019 and have elected not to fund a matching contribution for the plan year ended December 31, 2020.

**LOSS AND OTHER UNFAVORABLE CONTRACTS** – We assess the profitability of our contracts to provide management services to our contracted physician groups and identify those contracts where current operating results or forecasts indicate probable future losses. Anticipated future revenue is compared to anticipated costs and if the anticipated future cost exceeds the revenue, a loss contract accrual is recorded. In connection with the acquisition of Radiologix in November 2006, we acquired certain management service agreements which met this criterion and recorded to other non-current liabilities an \$8.9 million loss contract accrual. Of the \$4.6 million ending balance at December 31, 2018, approximately \$4.0 million, (\$2.8 million net of taxes), was settled against the purchase consideration of Hudson Valley Radiology Associates, P.L.L.C. (HVRA) by our VIE entity Lenox Hill Radiology and Medical Associates, P.C. and the remaining balance of approximately \$558,000 was written off upon ending a contract with a physician group. See Note 4, Facility Acquisitions and Dispositions for further information on the purchase of HVRA.

**EQUITY BASED COMPENSATION** – We have one long-term incentive plan that we adopted in 2006 and which we first amended and restated as of April 20, 2015, and again on March 9, 2017 (the “Restated Plan”). The Restated Plan was approved by our stockholders at our annual stockholders meeting on June 8, 2017. We have reserved for issuance under the Restated Plan 14,000,000 shares of common stock. We can issue options, stock awards, stock appreciation rights, stock units and cash awards under the Restated Plan. Certain options granted under the Restated Plan to employees are intended to qualify as incentive stock options under existing tax regulations. Stock options and warrants generally vest over three to five years and expire five to ten years from date of grant. The compensation expense associated with option grants is calculated based on a valuation model, typically the Black-Scholes model, which requires certain management assumptions with respect to volatility. The compensation expense recognized for all equity-based awards is recognized over the awards’ service periods. Equity-based compensation is classified in operating expenses within the same line item as the majority of the cash compensation paid to employees. In connection with our acquisition of DeepHealth Inc. on June 1, 2020, we assumed the DeepHealth, Inc. 2017 Stock Incentive Plan, including outstanding

options awards that can be exercised for our common stock. No additional awards will be granted under the DeepHealth, Inc. 2017 Equity Incentive Plan. See Note 4, Facility Acquisitions and Note 11, Stock-Based Compensation, for more information.

**FOREIGN CURRENCY TRANSLATION** – The functional currency of our foreign subsidiaries is the local currency. Assets and liabilities denominated in foreign currencies are translated using the exchange rate at the balance sheet dates. Revenues and expenses are translated using average exchange rates prevailing during the reporting period. Any translation adjustments resulting from this process are shown separately as a component of accumulated other comprehensive income (loss). Gains and losses related to the foreign currency portion of international transactions are included in the determination of net income.

**COMPREHENSIVE (LOSS) INCOME** – Accounting guidance establishes rules for reporting and displaying comprehensive income (loss) and its components. Our unrealized gains or losses on foreign currency translation adjustments and our interest rate cap and swap agreements are included in comprehensive income (loss). The components of comprehensive income (loss) for the three years in the period ended December 31, 2020 are included in the consolidated statements of comprehensive income (loss).

**COMMITMENTS AND CONTINGENCIES** - We are party to various legal proceedings, claims, and regulatory, tax or government inquiries and investigations that arise in the ordinary course of business. With respect to these matters, we evaluate the developments on a regular basis and accrue a liability when we believe a loss is probable and the amount can be reasonably estimated. Based on current information, we do not believe that reasonably possible or probable losses associated with pending legal proceedings would either individually or in the aggregate, have a material adverse effect on our business and consolidated financial statements. However, the outcome of these matters is inherently uncertain. Therefore, if one or more of these matters were resolved against us for amounts in excess of management’s expectations, our results of operations and financial condition, including in a particular reporting period in which any such outcome becomes probable and estimable, could be materially adversely affected.

In the second quarter of 2019, we accrued a liability of \$2.3 million related to allegations by the US Attorney’s Office for the Western District of New York that RadNet submitted certain claims which incorrectly identified the physician who furnished the radiology services. The final settlement, which admits no wrong-doing on behalf of RadNet, was \$2.2 million and paid in September 2019.

## DERIVATIVE INSTRUMENTS

### 2016 CAPS

In the fourth quarter of 2016, we entered into two forward interest rate cap agreements (“2016 Caps”). The 2016 Caps matured in September and October 2020. The 2016 Caps had notional amounts of \$150,000,000 and \$350,000,000, respectively, which were designated at inception as cash flow hedges of future cash interest payments associated with portions of our variable rate bank debt. Under these arrangements, we purchased a cap on 3 month LIBOR at 2.0%. We were liable for a \$5.3 million premium to enter into the caps which accrued to current liabilities on our balance sheet and paid over the life of the 2016 Caps. The gain or loss of the hedge (i.e. change in fair value) was reported as a component of accumulated other comprehensive income (loss) in the consolidated statement of equity.

A tabular presentation of the effect of derivative instruments on our consolidated statement of comprehensive (loss) income, net of taxes is as follows (amounts in thousands):

	<b><u>Interest Rate Contracts</u></b>	
	<b>Amount of Gain (Loss) Recognized on Derivative, net of taxes</b>	<b>Location of Gain (Loss) Recognized in Income on Derivative</b>
<b><u>For the twelve months ended</u></b>		
December 31, 2020	\$788	Other Comprehensive Income
December 31, 2019	(4,383)	Other Comprehensive Loss
December 31, 2018	2,876	Other Comprehensive Income

### 2019 SWAPS

In the second quarter of 2019, we entered into four forward interest rate agreements (“2019 swaps”). The 2019 swaps have total notional amounts of \$500,000,000, consisting of two agreements of \$50,000,000 each and two agreements of \$200,000,000 each. The 2019 swaps will secure a constant interest rate associated with portions of our variable rate bank debt and have an effective date of October 13, 2020. They will mature in October 2023 for the two smaller notional and October 2025 for the two larger notional. Under these arrangements, we arranged the 2019 swaps with locked in 1 month LIBOR rates at 1.96% for the \$100,000,000 notional

and at 2.05% for the \$400,000,000 notional. As of the effective date, we will be liable for premium payments if interest rates decline below arranged rates, but will receive interest payments if rates remain above the arranged rates.

At inception, we designated our 2019 Swaps as cash flow hedges of floating-rate borrowings. In accordance with accounting guidance, 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 reported as a component of comprehensive loss in the consolidated statement of equity. The remaining gain or loss, if any, is recognized currently in earnings. The cash flows for both our \$400,000,000 notional interest rate swap contract locked in at 2.05% due October 2025 and our \$100,000,000 notional interest rate swap contract locked in at 1.96% do not match the cash flows for our First Lien Term Loans and so we have determined that they are not currently effective as cash flow hedges. Accordingly, all changes in their fair value after April 1, 2020 for the \$400,000,000 notional and after July 1, 2020 for the \$100,000,000 notional will be recognized in earnings. As of July 1, 2020, the total change in fair value relating to swaps included in other comprehensive income was approximately \$24.4 million, net of taxes. This amount will be amortized to interest expense through October 2023 at approximately \$0.4 million per month and continuing at approximately \$0.3 million through October 2025.

A tabular presentation of the effect of derivative instruments on our consolidated statement of comprehensive loss of the 2019 swaps which remain ineffective is as follows (amounts in thousands):

**Interest Rate Contracts - Effective Portion**

<b>For the twelve months ended</b>	<b>Amount of Loss Recognized on Derivative, net of taxes</b>	<b>Location of Loss Recognized in Income on Derivative</b>
December 31, 2020	\$(20,160)	Other Comprehensive Loss
December 31, 2019	\$(5,870)	Other Comprehensive Loss

A tabular presentation of the effect of derivative instruments on our statement of operations of the 2019 Swaps for the Swaps that became ineffective in 2020 is as follows (amounts in thousands):

**Interest Rate Contracts - Ineffective Portion**

<b>For the twelve months ended</b>	<b>Amount of loss recognized in income on derivative (current period ineffective portion)</b>	<b>Location of loss recognized in Income on derivative (current period ineffective portion)</b>	<b>Amount of loss reclassified from accumulated OCI into income (prior period effective portion)</b>	<b>Location of loss reclassified from accumulated OCI into income (prior period effective portion)</b>
December 31, 2020	\$(2,528)	Other Income (Expense)	\$(3,448)	Equity and Interest Expense

**FAIR VALUE MEASUREMENTS** – Assets and liabilities subject to fair value measurements are required to be disclosed within a fair value hierarchy. The fair value hierarchy ranks the quality and reliability of inputs used to determine fair value. Accordingly, assets and liabilities carried at, or permitted to be carried at, fair value are classified within the fair value hierarchy in one of the following categories based on the lowest level input that is significant to a fair value measurement:

Level 1—Fair value is determined by using unadjusted quoted prices that are available in active markets for identical assets and liabilities.

Level 2—Fair value is determined by using inputs other than Level 1 quoted prices that are directly or indirectly observable. Inputs can include quoted prices for similar assets and liabilities in active markets or quoted prices for identical assets and liabilities in inactive markets. Related inputs can also include those used in valuation or other pricing models such as interest rates and yield curves that can be corroborated by observable market data.

Level 3—Fair value is determined by using inputs that are unobservable and not corroborated by market data. Use of these inputs involves significant and subjective judgment.

**Derivatives:**

The table below summarizes the estimated fair values of certain of our financial assets that are subject to fair value measurements, and the classification of these assets in our consolidated balance sheets, as follows (in thousands):



	As of December 31, 2020			
	Level 1	Level 2	Level 3	Total
Current and long term liabilities				
2016 CAPS - Interest Rate Contracts	\$ —	\$ —	\$ —	\$ —
2019 SWAPS - Interest Rate Contracts	\$ —	\$ 37,989	\$ —	\$ 37,989

	As of December 31, 2019			
	Level 1	Level 2	Level 3	Total
Current and long term liabilities				
2016 CAPS - Interest Rate Contracts	\$ —	\$ 1,081	\$ —	\$ 1,081
2019 SWAPS - Interest Rate Contracts	\$ —	\$ 9,477	\$ —	\$ 9,477

The estimated fair value of these contracts was determined using Level 2 inputs. More specifically, the fair value was determined by calculating the value of the difference between the fixed interest rate of the interest rate swaps and the counterparty's forward LIBOR curve. The forward LIBOR curve is readily available in the public markets or can be derived from information available in the public markets.

### Long Term Debt

The table below summarizes the estimated fair value and carrying amount of our SunTrust (Term Loan Agreement) and Barclays (First Lien Term Loans) long-term debt as follows (in thousands):

	As of December 31, 2020				
	Level 1	Level 2	Level 3	Total Fair Value	Total Face Value
Term Loan Agreement and First Lien Term Loans	\$ —	\$ 661,640	\$ —	\$ 661,640	\$ 662,403

	As of December 31, 2019				
	Level 1	Level 2	Level 3	Total Fair Value	Total Face Value
Term Loan Agreement and First Lien Term Loans	\$ —	\$ 708,948	\$ —	\$ 708,948	\$ 705,699

Our Barclays revolving credit facility had no aggregate principal amount outstanding as of December 31, 2020 and December 31, 2019, respectively. Our SunTrust revolving credit facility had no aggregate principal amount outstanding as of December 31, 2020 and December 31, 2019, respectively.

The estimated fair values of our long-term debt, which is discussed in Note 8, was determined using Level 2 inputs for the Barclays and SunTrust term loans. Level 2 inputs primarily related to comparable market prices.

We consider the carrying amounts of cash and cash equivalents, receivables, other current assets, current liabilities and other notes payables to approximate their fair value because of the relatively short period of time between the origination of these instruments and their expected realization or payment. Additionally, we consider the carrying amount of our capital lease obligations to approximate their fair value because the weighted average interest rate used to formulate the carrying amounts approximates current market rates.

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, as follows (in thousands except share and per share data):

	Years Ended December 31,		
	2020	2019	2018
Net (loss) income attributable to RadNet, Inc. common stockholders	\$ (14,840)	\$ 14,756	\$ 32,243
BASIC NET (LOSS) INCOME PER SHARE ATTRIBUTABLE TO RADNET, INC. COMMON STOCKHOLDERS			
Weighted average number of common shares outstanding during the period	50,891,791	49,674,858	48,114,275
Basic net (loss) income per share attributable to RadNet, Inc. common stockholders	\$ (0.29)	\$ 0.30	\$ 0.67

DILUTED NET (LOSS) INCOME PER SHARE ATTRIBUTABLE TO RADNET, INC. COMMON STOCKHOLDERS			
Weighted average number of common shares outstanding during the period	50,891,791	49,674,858	48,114,275
Add nonvested restricted stock subject only to service vesting	—	208,963	180,631
Add additional shares issuable upon exercise of stock options and warrants	—	360,185	384,093
Weighted average number of common shares used in calculating diluted net income per share	50,891,791	50,244,006	48,678,999
Diluted net (loss) income per share attributable to RadNet, Inc. common stockholders	\$ (0.29)	\$ 0.29	\$ 0.66

Stock options and non-vested restricted awards excluded from the computation of diluted per share amounts as their effect would be antidilutive:

Nonvested restricted stock subject to service vesting	329,159	—	—
Shares issuable upon the exercise of stock options	554,444	—	—

**EQUITY INVESTMENTS AT FAIR VALUE-** As of December 31, 2020, we have three equity investments for which a fair value is not readily determinable and we do not have significant influence and therefore the total amounts invested are recognized at cost. In accordance with accounting guidance, if there is no readily determinable fair value, the guidance allows entities the ability to measure investments at cost less impairment, whereby impairment is based on a qualitative assessment.

Medic Vision, based in Israel, specializes in software packages that provide compliant radiation dose structured reporting and enhanced images from reduced dose CT scans. On March 24, 2017, we acquired an initial 12.50% equity interest in Medic Vision - Imaging Solutions Ltd for \$1.0 million. We also received an option to exercise warrants to acquire up to an additional 12.50% equity interest for \$1.4 million within one year from the initial share purchase date, if exercised in full. On March 1, 2018 we exercised our warrant in part and acquired an additional 1.96% for \$200,000. Our initial equity interest has been diluted to 12.25% and our total equity investment stands at 14.21%. In accordance with accounting guidance, as we exercise no significant influence over Medic Vision's operations, the investment is recorded at its cost of \$1.2 million, given that the fair value is not readily determinable. No observable price changes or impairment in our investment was noted as of the year ended December 31, 2020.

Turner Imaging Systems, based in Utah, develops and markets portable X-ray imaging systems that provide a user the ability to acquire X-ray images wherever and whenever they are needed. On February 1, 2018, we purchased 2.1 million preferred shares in Turner Imaging Systems for \$2.0 million. On January 1, 2019 we funded a convertible promissory note in the amount of \$143,000 that converted to an additional 80,000 preferred shares on October 11, 2019. No observable price changes or impairment in our investment was noted for the year ended December 31, 2020.

WhiteRabbit.ai Inc., based in California, is currently developing an artificial intelligence suite which aims to improve the speed and accuracy of cancer detection in radiology and improve patient care. On November 5, 2019 we acquired an equity interest in the company for \$1.0 million and also loaned the company \$2.5 million in support of its operations. No observable price changes or impairment in our investment was noted for the year ended December 31, 2020.

**INVESTMENT IN JOINT VENTURES** – We have 13 unconsolidated joint ventures with ownership interests ranging from 35% to 55%. These joint ventures represent partnerships with hospitals, health systems or radiology practices and were formed for the purpose of owning and operating diagnostic imaging centers. Professional services at the joint venture diagnostic imaging centers are performed by contracted radiology practices or a radiology practice that participates in the joint venture. Our investment in these joint ventures is accounted for under the equity method, as we do not have a controlling financial interest in such ventures. We evaluate our investment in joint ventures, including cost in excess of book value (equity method goodwill) for impairment whenever indicators of impairment exist. No indicators of impairment existed as of December 31, 2020.

### ***Joint venture formations***

Effective November 1, 2020, Arizona Diagnostic Radiology Group LLC (“ADRG”), an entity we formed in conjunction with CHI National Services Inc. (“CHI”), assumed operational and managerial control of our Arizona centers. We hold a 49% economic interest and CHI holds the majority 51% economic interest, respectively in ADRG and account for the venture under the equity method. The entity was formed in part to leverage CHI's established presence in the Phoenix, Arizona market as a major health care provider.

### ***Joint venture investment contribution***

In the month of August 2020, we made additional cash contributions to our Santa Monica Imaging Group, LLC partnership in the amount of \$1.6 million in support of its expanded operations. We maintain our 35% economic interest in the partnership.

### ***Sale of joint venture interest:***

On April 1, 2017, we formed in conjunction with Cedars Sinai Medical Center (“CSMC”) the Santa Monica Imaging Group, LLC (“SMIG”), consisting of two multi-modality imaging centers located in Santa Monica, CA with RadNet holding a 40% economic interest and CSMC holding a 60% economic interest. RadNet accounts for our share of the venture under the equity method. On January 1, 2019, CSMC purchased from the us an additional 5% economic interest in SMIG valued at \$134,000. As a result of the transaction, our economic interest in SMIG has been reduced to 35%. We recorded a loss of \$2,000 on the transaction.

### ***Change in control of existing joint ventures***

On October 6, 2014, we acquired a 49% equity interest in Garden State Radiology Network, LLC (“GSRN”) for cash consideration of \$2.2 million. The venture consisted of two imaging centers located in New Jersey. On August 1, 2019, the entity was dissolved by transferring ownership of the assets of the centers with each partner receiving full ownership of one center. See Note 4, Facility Acquisitions and Dispositions, for further information.

On April 12, 2018 we acquired 25% share capital in Nulogix, Inc. for cash consideration of \$2.0 million. On August 1, 2019 we completed via the issuance of RadNet common stock valued at \$1.5 million, the acquisition of the remaining 75% economic interest and we now consolidate the financial statements of Nulogix. See Note 4, Facility Acquisitions and Dispositions, for further information.

On October 1, 2018, we obtained control over the operations of NJIN through an agreement with the other equity interest holder for no cash consideration. As such, we consolidated the financial statements of NJIN effective that date. The economic interest of each party remained the same after consolidation.

### ***Joint venture investment and financial information***

The following table is a summary of our investment in joint ventures during the years ended December 31, 2020 and December 31, 2019 (in thousands):

Balance as of December 31, 2018	\$ 37,973
Equity contributions in existing and purchase of interest in joint ventures	103
Equity in earnings in these joint ventures	8,350
Sale of ownership interest	(134)
Dissolution of GSRN	(1,428)
Nulogix return of capital	(792)
Nulogix change in control	(1,004)
Distribution of earnings	(8,598)
Balance as of December 31, 2019	<u>\$ 34,470</u>
Equity contributions in existing and purchase of interest in joint ventures	1,635
Equity in earnings in these joint ventures	7,945
Distribution of earnings	(9,522)
Balance as of December 31, 2020	<u><u>\$ 34,528</u></u>

We charged management service fees from the centers underlying these joint ventures of approximately \$11.3 million, \$11.4 million and \$13.8 million for the years ended December 31, 2020, 2019 and 2018, respectively. We eliminate any unrealized portion of our management service fees with our equity in earnings of joint ventures.

The following table is a summary of key unaudited financial data for these joint ventures as of December 31, 2020 and 2019, respectively, and for the years ended December 31, 2020, 2019 and 2018, respectively, (in thousands):

	<b>December 31,</b>		
	<b>December 31,</b>		
	<b>2020</b>	<b>2019</b>	
Balance Sheet Data:			
Current assets	\$ 27,085	\$ 27,427	
Noncurrent assets	68,686	61,037	
Current liabilities	(12,545)	(9,217)	
Noncurrent liabilities	(21,582)	(18,872)	
Total net assets	<u>\$ 61,644</u>	<u>\$ 60,375</u>	
Book value of RadNet joint venture interests	\$ 28,079	\$ 28,001	
Cost in excess of book value of acquired joint venture interests accounted for as equity method goodwill	6,449	6,469	
Total value of RadNet joint venture interests	<u>\$ 34,528</u>	<u>\$ 34,470</u>	
	<b>2020</b>	<b>2019</b>	<b>2018</b>
Net revenue	\$ 101,921	\$ 108,051	\$ 155,820
Net income	\$ 16,850	\$ 18,624	\$ 24,596

### NOTE 3 - RECENT ACCOUNTING STANDARDS

#### *Accounting standards adopted*

In March 2020, the FASB issued ASU 2020-04 (“ASU 2020-04”), *Reference Rate Reform (Topic 848), Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. ASU 2020-04 provides optional expedients and exceptions for applying generally accepted accounting principles to certain contract modifications and hedging relationships that reference London Interbank Offered Rate (LIBOR) or another reference rate expected to be discontinued. The guidance is effective upon issuance and generally can be applied through December 31, 2022. We are currently evaluating the potential impact of ASU 2020-04 on our financial statements.

In June 2016, the FASB issued ASU No. 2016-13 (“ASU 2016-13”), *Financial Instruments - Credit Losses*. ASU 2016-13 replaces the incurred loss methodology previously utilized for valuing financial instruments with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. We adopted the standard on January 1, 2020 using the modified retrospective approach. See the Accounts Receivable section to Note 2 for further information on our allowances for credit losses.

In August 2018, the FASB issued ASU No. 2018-15 (“ASU 2018-15”), *Intangibles-Goodwill and Other-Internal-Use Software*. ASU 2018-15 aligns the requirements for deferring implementation costs incurred in a cloud computing arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. This ASU was effective in the first quarter of 2020 with early adoption permitted and can be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. The adoption of this standard did not have a material impact on our consolidated balance sheet.

In March 2020, the FASB issued ASU 2020-03 (“ASU 2020-03”), *Codification Improvements to Financial Instruments*. The amendments in this update represent changes to clarify or improve the codification and correct unintended application. ASU 2020-03 was effective immediately upon issuance and its adoption did not have a material impact on our financial statements.

In August 2018, the FASB issued ASU No. 2018-13 (“ASU 2018-13”), *Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurements*. This standard removes, modifies and adds certain disclosures related to recurring and nonrecurring fair value measurements. We adopted ASC 2018-13 effective January 1, 2020 and it had no effect on our disclosures.

#### *Accounting standards not yet adopted*

In December 2019, the FASB issued ASU 2019-12 (“ASU 2019-12”), *Income Taxes (Topic 740)*. ASU 2019-12 removes certain exceptions related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period, and the recognition of deferred tax liabilities for outside basis differences. It also clarifies and simplifies other areas of the standard. ASU 2019-12 is effective beginning in the first quarter of 2021. Early adoption is permitted. Certain amendments in this update must be applied on a prospective basis, certain amendments must be applied on a retrospective basis, and certain amendments

must be applied on a modified retrospective basis through a cumulative-effect adjustment to retained earnings/(deficit) in the period of adoption. We are currently evaluating the impact this ASU will have on our financial statements and related disclosures.

In January 2020, the FASB issued ASU 2020-01 (“ASU 2020-01”), *Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815)*, clarifying the interaction between accounting standards related to equity securities, equity method investments, and certain derivatives. ASU 2020-01 is effective for fiscal years beginning after December 15, 2020. We do not expect the adoption of this guidance will have a material impact on our financial statements.

In January 2021, the FASB issued ASU 2021-01 (“ASU 2021-01”), *Reference Rate Reform (Topic 848), Scope*. ASU 2021-01 provides clarifies the scope of Topic 848 so that derivatives affected by the discounting transition are explicitly eligible for certain option expedients and exceptions in Topic 848. The guidance is effective upon issuance and generally can be applied through December 31, 2022. We are currently evaluating the potential impact of ASU 2021-01 on our financial statements.

#### NOTE 4 – FACILITY ACQUISITIONS AND DISPOSITIONS

##### *Acquisitions*

In October and November 2020, we completed our acquisition of certain assets of ZP Atlantic LLC, and ZP Elmhurst LLC. We made a fair value determination of the acquired assets and assumed liabilities and the following were recorded (in thousands):

	ZP Atlantic	ZP Elmhurst
Property and Equipment	\$ 7,931	\$ 10,681
Right of Use Assets	6,181	12,571
Other Assets	62	75
Intangible Assets	50	50
Right of Use Liabilities	(6,181)	(12,571)
Goodwill	828	1,463
<b>TOTAL</b>	<b>\$ 8,871</b>	<b>\$ 12,269</b>

On August 31, 2020 we completed our acquisition of certain assets of AZ-Tech Radiology & Open MRI, LLC, consisting of eight multi-modality imaging centers located in the Phoenix, Arizona area for purchase consideration of \$5.5 million. We made a fair value determination of the acquired assets and assumed liabilities and approximately \$2.5 million in property and equipment, \$7.6 million in right-of-use assets, \$0.1 million in other assets, \$7.6 million in operating lease liabilities, and \$2.9 million in goodwill were recorded.

On June 1, 2020, we completed our acquisition of all the equity interests of DeepHealth Inc., (“DeepHealth”) an artificial intelligence and machine learning company in an all stock purchase. As initial purchase consideration, we issued 915,132 shares at \$16.93 per share (823,615 issued at execution, with up to 91,517 shares to be issued 18 months after acquisition subject to adjustment for any indemnification claims). The transaction was accounted for as an acquisition of a business and total purchase consideration determined to be approximately \$34.6 million including i) 823,615 shares issued on the date of closing with fair value of \$13.9 million, ii) a liability of 91,517 shares with a fair value of \$1.5 million to be issued 18 months after acquisition subject to adjustment for any indemnification claims and will be marked to market in subsequent periods, iii) replacement awards attributable to pre-combination service issued to DeepHealth option holders with allocated fair value of \$2.0 million, iv) acquisition date fair value of contingent consideration of \$17.0 million and v) \$0.1 million in closing costs reimbursed to the seller. The fair values of replacement awards attributable to pre-combination service and contingent consideration are recorded in additional paid in capital upon closing of the transaction. For the contingent consideration, there are three arrangements that will be settled in a fixed number of shares upon achievement of three individual specific milestones which are mutually exclusive of each other, with 390,789, 586,184, and 195,393 shares, respectively, issuable for each milestone arrangement. The fair value of the contingent consideration was estimated at the date of acquisition based on our share price and estimated probability of the achievement of the respective milestones. We preliminarily recorded \$0.1 million in current assets, \$3.5 million in deferred tax liabilities, \$14.8 million in intangible assets, primarily in-process research and development (“IPR&D”), and \$23.3 million in goodwill. The goodwill is primarily attributable to expected post-acquisition synergies from integrating DeepHealth’s assembled workforce and IPR&D technologies. The fair values of the identifiable intangible assets related to IPR&D were determined by the income method and the assets will not be amortized until regulatory approval is obtained, but will be assessed for impairment annually, or more frequently if indicators of impairment become present.

On March 2, 2020 our consolidated subsidiary New Jersey Imaging Networks (“NJIN”) completed the acquisition of certain assets of MRI at Woodbridge, LLC consisting of a single multi-modality imaging center located in Avenel, New Jersey for cash consideration of \$2.6 million. NJIN made a fair value determination of the acquired assets and assumed liabilities and approximately

\$0.5 million in property and equipment, \$1.1 million in right-of-use assets, \$0.3 million in intangible assets, \$1.1 million in operating lease liabilities, \$0.1 million in finance lease liabilities, and \$1.8 million in goodwill were recorded.

On January 2, 2020 we completed our acquisition of certain assets of Olney Open MRI, LLC, consisting of a single multi-modality imaging center located in Columbia, Maryland for cash consideration of \$1.8 million. We have made a fair value determination of the acquired assets and assumed liabilities and approximately \$0.8 million in property and equipment, \$1.3 million in right-of-use assets, \$0.3 million in intangible assets, \$1.3 million in operating lease liabilities and \$0.6 million in goodwill were recorded.

On August 1, 2019 we completed a step-up acquisition upon the dissolution of our former 49% owned joint venture, Garden State Radiology LLC (“GSRN”). GSRN consisted of two multi-modality centers operating in New Jersey. GSRN became our wholly owned subsidiary with the withdrawal of the 51% majority partner for the full ownership of one center with no other consideration. We made a fair value determination of our original 49% interest which resulted in a step-up gain of approximately \$1.3 million. We determined a fair value of the remaining acquired imaging center of \$3.1 million in assets and \$0.4 million in liabilities were recognized. We recorded \$1.0 thousand in other assets, \$0.7 million in fixed assets, \$0.4 million in right-of-use assets, \$0.4 million in operating lease liabilities, and \$2.0 million in goodwill.

On August 1, 2019 we completed a step-up acquisition of our former 25% owned joint venture, Nulogix, via a stock issuance of RadNet common shares valued at \$1.5 million to obtain the remaining 75% outstanding Nulogix shares. We made a fair value determination of the acquired assets and approximately \$0.2 million in fixed assets, \$0.7 million in intangible assets, \$0.3 million in deferred tax liability and goodwill of \$1.3 million were recorded. We also made a fair value determination of our 25% pre-existing interest in the business and recognized a loss of \$0.5 million which is included in operating expenses within the consolidated statements of operations.

On April 1, 2019 we completed our acquisition of certain assets of Kern Radiology Imaging Systems Inc., consisting of four multi-modality imaging centers located in Bakersfield, California for purchase consideration of \$19.3 million. We made a fair value determination of the acquired assets and assumed liabilities and approximately \$10.1 million in property and equipment, \$9.7 million in right-of-use assets, \$36.0 thousand in other assets, \$3.4 million in intangible assets, \$14.5 million in operating lease liabilities, and \$10.5 million in goodwill were recorded.

On April 1, 2019 we completed our acquisition of certain assets of Zilkha Radiology Inc. consisting of two multi-modality centers located in Islip, New York for purchase consideration of \$4.5 million. We made a fair value determination of the acquired assets and assumed liabilities and approximately \$2.2 million in property and equipment, \$5.1 million in right-of-use assets, \$0.1 million in intangible assets, \$5.1 million in operating lease liabilities, \$0.3 million in finance lease liabilities and \$2.6 million in goodwill were recorded.

On February 28, 2019, one of VIE entities, Lenox Hill Radiology and Medical Imaging Associates, P.C. (“LHR”), purchased the membership interest of Hudson Valley Radiology Associates, P.L.L.C. (“HVRA”) for \$6.0 million of RadNet common stock and contingent consideration valued at \$0.7 million to guarantee the share value issued for a period of six months post acquisition date. LHR has performed a fair value purchase price allocation and recorded equipment of \$10.0 thousand, a covenant not to compete of \$50.0 thousand, trade name of \$0.4 million, other intangible assets of \$0.3 million and goodwill of \$3.1 million from the transaction. In connection with the acquisition, RadNet also settled against the purchase consideration, \$2.8 million, net of taxes, of an unfavorable vendor contract with HVRA stemming from the previous acquisition of Radiologix, Inc. in November 2006.

On February 1, 2019 our majority owned subsidiary, West Valley Imaging Group, LLC (“WVIG”) completed its acquisition of certain assets of West Valley Imaging Center, LLC (“West Valley”), consisting of a single multi-modality imaging center located in West Hills, CA for purchase consideration of \$3.0 million all of which was initially funded by the Company. We have made a fair value determination of the acquired assets and approximately \$0.3 million in equipment and fixed assets, \$7.0 thousand in other assets, \$0.2 million in intangible assets and \$2.5 million in goodwill were recorded. Subsequent to the transaction, our partner in WVIG, Cedars Sinai Medical Center, contributed \$0.8 million in cash to maintain its 25% economic interest in the venture.

### ***Joint venture formations***

On February 13, 2019 we formed a wholly owned subsidiary, Ventura County Imaging Group, LLC (“VCIG”). On March 1, 2019, Dignity Health joined as a venture partner. Total agreed contribution of both parties was \$10.4 million of cash and assets with RadNet contributing net assets with a book value of \$4.3 million for a 60% economic interest and Dignity Health contributing \$6.1 million in cash and assets for a 40% economic interest. For its contribution, RadNet transferred net assets of three wholly owned multi-modality imaging centers. Dignity Health contributed approximately \$0.8 million in assets to acquire 5% economic interest and paid RadNet \$5.3 million for an additional 35% economic interest. We maintain controlling economic interest in VCIG and fully consolidate the results into our financial statements.

## Dispositions

On June 1, 2020 we completed our sale of certain assets of our Imaging On Call subsidiary to RadVantage P.C. (an unrelated corporation) for approximately \$1.0 thousand. With this transaction, we have exited the teleradiology business.

## NOTE 5 – GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill is recorded as a result of business combinations. Activity in goodwill for the years ended December 31, 2019 and December 31, 2020 is provided below (in thousands):

Balance as of December 31, 2018	\$418,093
Adjustments to our preliminary allocation of the purchase price of Medical Arts Radiological Group, P.C.	722
Goodwill acquired through the acquisition of certain assets of Dignity Health	1
Goodwill acquired through the acquisition of certain assets of West Valley Imaging Center, LLC	2,490
Goodwill disposed through sale of assets	(123)
Goodwill acquired by Lenox Hill Radiology through the membership purchase of HVRA	3,125
Goodwill acquired through the acquisition of certain assets of Kern Radiology, Inc.	10,507
Goodwill acquired through the acquisition of certain assets of Zilkha Radiology, Inc.	2,577
Goodwill acquired through the acquisition of certain assets of Ramic Mahwah, LLC	231
Goodwill acquired through the acquisition of GSRN	2,021
Goodwill acquired through the acquisition of Nulogix	1,337
Goodwill transferred from assets held for sale	992
Balance as of December 31, 2019	\$441,973
Goodwill acquired through the acquisition of Olney Open MRI, LLC	601
Goodwill acquired through the acquisition of MRI at Woodbridge, LLC	1,833
Goodwill acquired through the acquisition of DeepHealth, Inc.	23,299
Goodwill acquired through the acquisition of AZ-Tech Radiology & Open MRI, LLC	2,882
Goodwill acquired through the acquisition of ZP Ozone Park, LLC	828
Goodwill acquired through the acquisition of ZP Elmhurst LLC	1,463
Balance as of December 31, 2020	\$472,879

The amount of goodwill from these acquisitions that is deductible for tax purposes as of December 31, 2020 is \$148.3 million.

Other intangible assets are primarily related to our business combinations and software development. They include the estimated fair values of such items as service agreements, customer lists, covenants not to compete, acquired technologies, and trade names.

Total amortization expense was \$3.7 million, \$3.1 million, and \$2.7 million for the years ended December 31, 2020, 2019 and 2018, respectively. Intangible assets are amortized using the straight-line method over their useful life determined at acquisition. Management service agreements are amortized over 25 years using the straight line method. Software development is capitalized and amortized over the useful life of the software when placed into service. Trade names are reviewed annually for impairment.

The following table shows annual amortization expense, by asset classes that will be recorded over the next five years (in thousands):

	2021	2022	2023	2024	2025	Thereafter	Total	Weighted average amortization period remaining in years
Management Service Contracts	\$ 2,287	\$ 2,287	\$ 2,287	\$ 2,287	\$ 2,287	\$ 13,533	\$ 24,968	10.9
Covenant not to compete and other contracts	1,024	994	883	467	233	—	3,601	3.9
Developed Technology	244	142	—	—	—	—	386	1.6
Trade Names amortized	75	75	66	64	64	309	653	5.4
Trade Names indefinite life	—	—	—	—	—	7,100	7,100	—
Software in development	—	—	—	—	—	15,685	15,685	—
<b>Total Annual Amortization</b>	<b>\$ 3,630</b>	<b>\$ 3,498</b>	<b>\$ 3,236</b>	<b>\$ 2,818</b>	<b>\$ 2,584</b>	<b>\$ 36,627</b>	<b>\$ 52,393</b>	

#### NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment and accumulated depreciation and amortization are as follows (in thousands):

	December 31,	
	2020	2019
Land	\$ 250	\$ 250
Medical equipment	480,631	426,682
Computer and office equipment, furniture and fixtures	132,446	120,490
Leasehold improvements	399,253	377,676
Equipment under financing/capital lease	13,984	14,105
Total property and equipment cost	1,026,564	939,203
Accumulated depreciation	(627,229)	(571,408)
Total property and equipment	\$ 399,335	\$ 367,795

Included in our property and equipment at December 31, 2020 is approximately \$57.5 million total of construction in process amounts consisting of \$26.0 million in medical equipment, \$7.7 million in computer and office equipment, and \$23.8 million in leasehold improvements.

Depreciation and amortization expense of property and equipment, including amortization of equipment under finance/capital leases, for the years ended December 31, 2020, 2019 and 2018 was \$83.1 million, \$77.5 million, and \$70.2 million, respectively.

#### NOTE 7 – ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses were comprised of the following (in thousands):

	December 31,	
	2020	2019
Accounts payable	\$ 70,071	\$ 64,300
Accrued expenses	84,312	83,853
Accrued salary and benefits	58,051	42,003
Accrued professional fees	24,250	17,429
Total	\$ 236,684	\$ 207,585

#### NOTE 8 - CREDIT FACILITIES AND NOTES PAYABLE

As of December 31, 2020 and December 31, 2019 our debt obligations consisted of the following (in thousands):



	<b>December 31, 2020</b>	<b>December 31, 2019</b>
First Lien Term Loans collateralized by RadNet’s tangible and intangible assets	\$ 611,028	\$ 649,824
Discount on First Lien Term Loans	(9,699)	(13,579)
SunTrust Term Loan Agreement collateralized by NJIN’s tangible and intangible assets	51,375	55,875
Equipment notes payable at interest rates ranging from 4.4% to 5.6%, due through 2020, collateralized by medical equipment	—	275
Total debt obligations	<u>652,704</u>	<u>692,395</u>
Less current portion	<u>(39,791)</u>	<u>(39,691)</u>
Long-term portion debt obligations	<u>\$ 612,913</u>	<u>\$ 652,704</u>

The following is a listing of annual principal maturities of notes payable exclusive of all related discounts and repayments on our revolving credit facilities for years ending December 31 (in thousands):

2021	\$ 43,670
2022	44,795
2023	573,938
Total notes payable obligations	<u>\$ 662,403</u>

Included in our consolidated balance sheets at December 31, 2020 are \$601.3 million of First Lien Term Loans and \$51.4 million of SunTrust Term Loan debt for a combined total of \$652.7 million (net of unamortized discounts of \$9.7 million) in thousands:

	<b>Face Value</b>	<b>Discount</b>	<b>Total Carrying Value</b>
First Lien Term Loans	\$ 611,028	\$ (9,699)	\$ 601,329
SunTrust Term Loan Agreement	51,375	—	51,375
Total Term Loans	<u>\$ 662,403</u>	<u>\$ (9,699)</u>	<u>\$ 652,704</u>

We had no outstanding balance under our \$195.0 million Barclays Revolving Credit Facility at December 31, 2020 and had reserved an additional \$7.3 million for certain letters of credit. The remaining \$187.7 million of our Barclays Revolving Credit Facility was available to draw upon as of December 31, 2020. We also had no balance under our \$30.0 million SunTrust Revolving Credit Facility related to our consolidated subsidiary NJIN at December 31, 2020, and with no letters of credit reserved against the facility, the full amount was available to draw upon. At December 31, 2020 we were in compliance with all covenants under our credit facilities.

#### Senior Credit Facilities:

##### *Barclays Credit Facilities*

At December 31, 2020, our Barclays credit facilities were comprised of one tranche of term loans (“First Lien Term Loans”) and a revolving credit facility of \$195.0 million (the “Barclays Revolving Credit Facility”), both of which are provided pursuant to the Amended and Restated First Lien Credit and Guaranty Agreement dated July 1, 2016, among RadNet, Barclays Bank plc, as administrative agent, and the lenders identified therein (as amended, the “First Lien Credit Agreement”). Deferred financing costs at December 31, 2020, net of accumulated amortization, was \$1.8 million and is specifically related to our Barclays Revolving Credit Facility.

Our First Lien Term Loans bear interest at either an Adjusted Eurodollar Rate or a Base Rate (each as defined in the First Lien Credit Agreement) plus an applicable margin according to the following schedule:

<b>First Lien Leverage Ratio</b>	<b>Eurodollar Rate Spread</b>	<b>Base Rate Spread</b>
> 5.50x	4.50%	3.50%
> 4.00x but ≤ 5.50x	3.75%	2.75%
>3.50x but ≤ 4.00x	3.50%	2.50%
≤ 3.50x	3.25%	2.25%

At December 31, 2020 the effective Adjusted Eurodollar Rate and the Base Rate for the First Lien Term Loans was 1.00% and 3.25%, respectively and the applicable margin for Adjusted Eurodollar Rate and Base Rate borrowings was 3.75% and 2.75%, respectively.

The First Lien Credit Agreement provides for quarterly payments of principal under the First Lien Term Loans in the amount of approximately \$9.7 million. The First Lien Term Loans will mature on July 1, 2023 unless otherwise accelerated under the terms of the First Lien Credit Agreement.

SunTrust Credit Facilities:

At December 31, 2020, our SunTrust credit facilities, which relate to our consolidated subsidiary The New Jersey Imaging Network, L.L.C. (“NJIN”), were comprised of one term loan (the “SunTrust Term Loan”) and a revolving credit facility of \$30.0 million (the “SunTrust Revolving Credit Facility”) both of which are provided pursuant to the Amended and Restated revolving Credit and Term Loan Agreement dated August 31, 2018, among NJIN, as borrower, with SunTrust Bank, as administrative agent, and the lenders identified therein (as amended, the “SunTrust Credit Agreement”). Our SunTrust Term Loan bears interest at either an Adjusted LIBOR Rate or a Base Rate (each as defined in the SunTrust Credit Agreement), plus an applicable margin according to the following schedule:

<b>Pricing Level</b>	<b>Leverage Ratio</b>	<b>Applicable Margin for Eurodollar Loans</b>	<b>Applicable Margin for Base Rate Loans</b>	<b>Applicable Margin for Letter of Credit Fees</b>	<b>Applicable Percentage for Commitment Fee</b>
I	Greater than or equal to 3.00:1.00	2.75% <i>per annum</i>	1.75% <i>per annum</i>	2.75% <i>per annum</i>	0.45% <i>per annum</i>
II	Less than 3.00:1.00 but greater than or equal to 2.50:1.00	2.25% <i>per annum</i>	1.25% <i>per annum</i>	2.25% <i>per annum</i>	0.40% <i>per annum</i>
III	Less than 2.50:1.00 but greater than or equal to 2.00:1.00	2.00% <i>per annum</i>	1.00% <i>per annum</i>	2.00% <i>per annum</i>	0.35% <i>per annum</i>
IV	Less than 2.00:1.00 but greater than or equal to 1.50:1.00	1.75% <i>per annum</i>	0.75% <i>per annum</i>	1.75% <i>per annum</i>	0.30% <i>per annum</i>
V	Less than 1.50:1.00	1.50% <i>per annum</i>	0.50% <i>per annum</i>	1.50% <i>per annum</i>	0.30% <i>per annum</i>

The loans and other obligations outstanding under the SunTrust Credit Agreement currently bear interest at a three month LIBOR election at 0.22% plus an applicable margin and fees based on Pricing Level III described above.

The scheduled amortization of the SunTrust Term Loan began December 31, 2018 with quarterly payments of \$750,000, representing annual amortization equal to 5.0% of the original principal amount of the SunTrust Term Loan. At scheduled intervals, the quarterly amortization increases by \$375,000, with the remaining balance to be paid at maturity.

Revolving Credit Facilities:

Barclays Revolving Credit Facility:

Revolving loans borrowed under the Barclays Revolving Credit Facility bear interest at either an Adjusted Eurodollar Rate or a Base Rate (in each case, as more fully defined in the First Lien Credit Agreement) plus an applicable margin. The applicable margin for borrowing under the Barclays Revolving Credit Facility varies based on our leverage ratio in accordance with the same schedule set forth above for First Lien Term Loans. As of December 31, 2020, the effective interest rate payable on revolving loans under the Barclays Revolving Credit Facility was 6.00%.

For letters of credit issued under the Barclays Revolving Credit Facility, letter of credit fees accrue at the applicable margin for Adjusted Eurodollar Rate revolving loans, currently 3.75%, and fronting fees accrue at 0.25% per annum, in each case on the average aggregate daily maximum amount available to be drawn under all letters of credit issued under the First Lien Credit Agreement. In addition a commitment fee of 0.50% per annum accrues on the unused revolver commitments under the Barclays Revolving Credit Facility.

The Barclays Revolving Credit Facility will terminate on the earlier to occur of July 1, 2023 or termination due to specific events of default pursuant to the First Lien Credit Agreement.

Our Barclays Revolving Credit Facility was amended in August 2020 to add \$57.5 million of revolving commitments, which additional commitments increased the maximum borrowing capacity to \$195.0 million. Total issue costs added in relation to this amendment amounted to approximately \$0.7 million and was capitalized as deferred financing costs and will be amortized over the remaining term of the First Lien Credit Agreement.

*SunTrust Revolving Credit Facility:*

The SunTrust Credit Agreement established a \$30.0 million revolving credit facility available to NJIN for funding requirements. The SunTrust Revolving Credit Facility terminates on the earliest of (i) August 31, 2023, (ii) the voluntary termination thereof by NJIN pursuant to Section 2.8 of the SunTrust Credit Agreement, or (iii) the date on which all amounts outstanding under the SunTrust Credit Agreement have been declared or have automatically become due and payable (whether by acceleration or otherwise). As of December 31, 2020, NJIN had no borrowings under the SunTrust Revolving Credit Facility.

Recent Amendments to Credit Facilities

*Barclays Credit Facilities:*

On August 28, 2020, RadNet Management, Inc. and RadNet, Inc. entered into Amendment No. 8, Consent and Incremental Joinder Agreement to Credit and Guaranty Agreement (“the Eighth Amendment”). The Eighth Amendment amends the First Lien Credit Agreement to add \$57.5 million of revolving commitments to the Barclays Revolving Credit Facility increasing the maximum borrowing capacity under the Barclays Revolving Credit Facility to \$195.0 million while leaving the maturity date of July 1, 2023 unchanged. Total issue costs added in relation to the Eighth Amendment amounted to approximately \$0.7 million and was capitalized as deferred financing costs and will be amortized over the remaining term of the First Lien Credit Agreement.

On April 18, 2019 we entered into the following two amendments to the First Lien Credit Agreement: (i) Amendment No. 6, Consent and Incremental Joinder Agreement to Credit and Guaranty Agreement (the “Sixth Amendment”); and (ii) Amendment No. 7 to Credit and Guaranty Agreement (the “Seventh Amendment”). Among other things, the Sixth Amendment amended the First Lien Credit Agreement to issue \$100.0 million in incremental First Lien Term Loans and to add an additional \$20.0 million of revolving commitments to the Barclay’s Revolving Credit Facility. The Seventh Amendment amended the First Lien Credit Agreement to extend the maturity date of the Barclays Revolving Credit Facility by an additional two years to July 1, 2023, unless sooner terminated in accordance with the terms of the First Lien Credit Agreement. Total issue costs added in relation to the Sixth and Seventh amendments in 2019 amounted to approximately \$4.4 million. Of this amount, \$2.1 million was identified and capitalized as discount on debt, \$0.7 million was capitalized as deferred financing costs, and \$1.6 million was expensed. Amounts capitalized will be amortized over the remaining term of the First Lien Credit Agreement.

Paycheck Protection Program

The Paycheck Protection Program (PPP) includes funds available for loans to small business and Medicare providers to support operations during the COVID-19 pandemic. The funds are administered by the Small Business Administration (SBA), through approved lenders and do not require collateral or personal guarantees. We received our loans based on being a Medicare provider. The terms and conditions for participation require entities to certify that economic uncertainty related to the COVID-19 pandemic makes the loan necessary to support their current operations, and that they will use the funds to retain workers (e.g., by paying salaries, providing paid sick/medical leave and health insurance benefits) and pay certain debts (mortgage obligations) and expenses (e.g. rent, utilities, telephone). The loans have a 1.0% fixed interest rate and are due in 2 years. The loans are eligible for forgiveness subject to salary limitations and employee retention levels. Certain of our consolidated subsidiaries received four loans totaling \$4.0 million. We accounted for the funds received as debt and recorded a liability for the full amount of proceeds received and accrued interest over the term of the loans. In December 2020 we met the eligibility requirements for forgiveness and the loans were written off to gain on debt extinguishment.

**NOTE 9 – LEASES**

***Adoption of Standard***

In February 2016, the FASB issued a new standard related to leases to increase transparency and comparability among organizations by requiring the recognition of right-of-use (“ROU”) assets and lease liabilities on the balance sheet for all leases with terms in excess of twelve months. Sufficient disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. The standard was effective for us beginning January 1, 2019. We have elected the optional transition method to apply the standard as of the effective date and therefore, we will not apply

the standard to the comparative periods presented in the consolidated financial statements. We also elected the transition package of three practical expedients permitted within the standard, which eliminates the requirements to reassess prior conclusions about lease identification, lease classification, and initial direct costs. The adoption of the standard had a material impact on our consolidated balance sheets, but did not have material impact on our consolidated income statements or cash flows.

### ***Lease Liability***

We have operating leases for medical facilities, administrative offices, warehouse space and major medical equipment. We lease the premises at which these facilities are located and do not have options to purchase the facilities we rent. Our most common initial term varies in length from 5 to 15 years. Including renewal options negotiated with the landlord, we can have a total span of 10 to 35 years at the facilities we lease. We also lease smaller satellite X-Ray locations on mutually renewable terms, usually lasting one year. Additionally, we have operating and finance leases for certain medical and office equipment, with lease terms generally lasting from 5 to 8 years. Our Incremental Borrowing Rate (“IBR”) used to discount the stream of lease payments is closely related to the interest rates charged on our collateralized debt obligations and our IBR is adjusted when those rates experience a substantial change.

The components of lease expense were as follows:

(In thousands)	<b>Years ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
Operating lease cost	\$ 99,323	\$ 95,348
Finance lease cost:		
Depreciation of leased equipment	\$ 3,122	\$ 3,135
Interest on lease liabilities	210	395
Total finance lease cost	\$ 3,332	\$ 3,530

Supplemental cash flow information related to leases was as follows:

(In thousands)	<b>Years ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 89,821	\$ 95,922
Operating cash flows from financing leases	210	395
Financing cash flows from financing leases	3,304	5,939
Right-of-use & Equipment assets obtained in exchange for lease obligations:		
Operating leases <sup>(1)</sup>	106,099	482,399
Financing leases	24	14,105

<sup>(1)</sup> Amounts for the twelve months ended December 31, 2019 include the transition adjustment for the adoption of Topic 842.

As previously disclosed in our 2018 Annual Report on Form 10-K and under the previous lease accounting, rental expense for the year ended December 31, 2018 was \$83.0 million.

Supplemental balance sheet information related to leases was as follows:

(In thousands, except lease term and discount rates)

	December 31,	
	2020	2019
<b>Operating Leases</b>		
Operating lease right-of-use assets	\$ 483,661	\$ 445,477
Current portion of operating lease liability	65,794	61,206
Operating lease liabilities	463,096	420,922
<b>Total operating lease liabilities</b>	<b>\$ 528,890</b>	<b>\$ 482,128</b>
<b>Finance Leases</b>		
Equipment at cost	\$ 13,984	\$ 14,105
Accumulated depreciation	(6,220)	(3,135)
Equipment, net	\$ 7,764	\$ 10,970
Current portion of finance lease	\$ 2,578	\$ 3,283
Finance lease liabilities	743	3,264
<b>Total finance lease liabilities</b>	<b>\$ 3,321</b>	<b>\$ 6,547</b>
<b>Weighted Average Remaining Lease Term</b>		
Operating leases - years	9.2	8.8
Finance leases - years	2.5	3.3
<b>Weighted Average Discount Rate</b>		
Operating leases	6.4 %	6.4 %
Finance leases	4.4 %	4.4 %

Maturities of lease liabilities were as follows:

(In thousands)

Year Ending December 31,	Operating Leases	Financing Leases
2021	\$ 97,307	\$ 2,654
2022	91,479	719
2023	83,648	14
2024	69,686	13
2025	59,469	4
Thereafter	316,112	2
<b>Total Lease Payments</b>	<b>717,701</b>	<b>3,406</b>
<b>Less imputed interest</b>	<b>(188,811)</b>	<b>(85)</b>
<b>Total</b>	<b>\$ 528,890</b>	<b>\$ 3,321</b>

As of December 31, 2020, we have additional operating leases for facilities and medical equipment that have not yet commenced of approximately \$8.8 million. These operating leases will commence in 2021 with lease terms of 3 to 15 years.

#### NOTE 10 – INCOME TAXES

For the years ended December 31, 2020, 2019 and 2018, we recognized income tax expense comprised of the following (in thousands):

	December 31,		
	2020	2019	2018
Federal current tax	\$ (256)	\$ (161)	\$ (765)
State current tax	(1,608)	7,715	7,263
Other current tax	27	22	20
Federal deferred tax	(303)	3,396	(2,020)
State deferred tax	3,035	(4,743)	(4,104)
<b>Income tax expense</b>	<b>\$ 895</b>	<b>\$ 6,229</b>	<b>\$ 394</b>

A reconciliation of the statutory U.S. federal rate and effective rates is as follows:

	<b>Years Ended December 31,</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
Federal tax	\$ (179)	\$ 6,231	\$ 8,256
State franchise tax, net of federal benefit	779	3,891	1,332
Other non deductible expenses	301	674	471
Noncontrolling interests in partnerships	(2,748)	(1,824)	(1,237)
Changes in valuation allowance	(33)	(462)	1,760
Return to provision	(2,252)	(1,324)	1,494
PPP Loan	(850)	—	—
Gain on change in control	—	—	(8,303)
Deferred true-ups and other	4,839	(761)	(4,254)
Uncertain tax provisions	1,036	(217)	1,046
Other reconciling items	2	21	(171)
Income tax expense	<u>\$ 895</u>	<u>\$ 6,229</u>	<u>\$ 394</u>

Deferred income taxes reflect the net tax effects of temporary differences between carrying amounts of assets and liabilities for financial and income tax reporting purposes and operating loss carryforwards.

Our deferred tax assets and liabilities comprise the following (in thousands):

	<b>December 31,</b>	
	<b>2020</b>	<b>2019</b>
Deferred tax assets:		
Net operating losses	\$ 59,154	\$ 34,490
Accrued expenses	3,948	4,280
Operating lease liability	124,139	126,546
Equity compensation	1,903	1,374
Allowance for doubtful accounts	21,284	27,220
Other	11,512	4,616
Valuation allowance	(5,315)	(5,348)
Total Deferred Tax Assets	<u>\$ 216,625</u>	<u>\$ 193,178</u>
Deferred tax liabilities:		
Property and equipment	(24,298)	(6,450)
Goodwill	(28,457)	(24,637)
Intangibles	(9,608)	(6,669)
Operating lease right-of-use asset	(112,956)	(115,364)
Other	(6,619)	(5,510)
Total Deferred Tax Liabilities	<u>\$ (181,938)</u>	<u>\$ (158,630)</u>
Net Deferred Tax Asset	<u>\$ 34,687</u>	<u>\$ 34,548</u>

As of December 31, 2020, the Company had federal net operating loss carryforwards of approximately \$251.6 million, which comprise of definite and indefinite net operating losses. We had federal net operating loss carryforwards of approximately \$186.2 million, which expire at various intervals from the years 2023 to 2037, and had carryforwards of \$65.4 million of net operating losses which do not expire. Federal net operating losses generated following December 31, 2017 carryover indefinitely and may generally be used to offset up to 80% of future taxable net income. The Company also had state net operating loss carryforwards of approximately \$57.9 million, which expire at various intervals from the years 2020 through 2039. As of December 31, 2020, \$24.6 million of our federal net operating loss carryforwards acquired in connection with the 2011 acquisition of Raven Holdings U.S., Inc. and the 2019 acquisition of Nulogix Health, Inc. are subject to limitations related to their utilization under Section 382 of the Internal Revenue Code. Future ownership changes as determined under Section 382 of the Internal Revenue Code could further limit the utilization of net operating loss carryforwards.

We considered all evidence available when determining whether deferred tax assets are more likely-than-not to be realized, including projected future taxable income, scheduled reversals of deferred tax liabilities, prudent tax planning strategies, and recent financial operations. The evaluation of this evidence requires significant judgment about the forecasts of future taxable income, based on the plans and estimates we are using to manage the underlying businesses. In evaluating the objective evidence that

historical results provide, we consider three years of cumulative operating income. As of December 31, 2020, we have determined that deferred tax assets of \$216.6 million are more likely-than-not to be realized. We have also taken into consideration deferred tax liabilities of \$28.5 million are related to book basis in goodwill that has an indefinite life.

We file consolidated income tax returns in the U.S. federal jurisdiction and various states and foreign jurisdictions. We continue to reinvest earnings of the non-US entities for the foreseeable future and therefore have not recognized any U.S. tax expense on these earnings. With limited exceptions, we are no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2015. We are currently under audit in the state of California for the tax years of 2016 and 2017. It is too early to assess the impact such audits may have on the financial position of the Company, however we do not anticipate the results of any open examinations would result in a material change to our financial position.

At December 31, 2020, the Company has unrecognized tax benefits of \$5.5 million of which \$4.4 million will affect the effective tax rate if recognized.

A reconciliation of the total gross amounts of unrecognized tax benefits for the years ended are as follows (in thousands):

	<b>December 31,</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
Balance at beginning of year	\$ 4,320	\$ 4,629	\$ 3,615
Increases related to prior year tax positions	1,382	(34)	896
Increases related to current year tax positions	3	119	111
Expiration of the statute of limitations for the assessment of taxes	(221)	(393)	—
Increase (decrease) related to change in rate	—	(1)	7
Balance at end of year	<u>\$ 5,484</u>	<u>\$ 4,320</u>	<u>\$ 4,629</u>

The Company recognizes accrued interest and penalties related to unrecognized tax benefits in income tax expense. During the year ended December 31, 2020 the Company accrued approximately \$0.1 million of interest and penalties. As of December 31, 2020, accrued interest and penalties amounted to approximately \$0.4 million.

On March 27, 2020, the United States enacted the Coronavirus Aid, Relief and Economic Security Act (CARES Act). The CARES Act is an emergency economic stimulus package that includes spending and tax breaks to strengthen the United States economy and fund a nationwide effort to curtail the effect of COVID-19. The CARES Act provides sweeping tax changes in response to the COVID-19 pandemic, some of the more significant provisions are removal of certain limitations on utilization of net operating losses, increasing the loss carryback period for certain losses to five years, and increasing the ability to deduct interest expense, as well as amending certain provisions of the previously enacted Tax Cuts and Jobs Act. At December 31, 2020, the Company has taken advantage of the accelerated tax depreciation related to qualified improvement property and the Paycheck Protection Program loan allowed under the CARES Act.

On December 27, 2020, the United States enacted the Consolidated Appropriations Act of 2021 (“CAA”). The CAA includes provisions extending certain CARES Act provisions and adds coronavirus relief, tax and health extenders. The Company will continue to evaluate the impact of the CAA and its impact on our financial statements in 2021 and beyond.

In June 29, 2020, the state of California passed Assembly Bill 85 which suspends the California net operating loss deduction for the 2020-2022 tax years and the R&D credit usage for the same period (for credit usages in excess of \$5M). These suspensions were considered in preparation of the 2020 financial statements.

## **NOTE 11 – STOCK-BASED COMPENSATION**

### **Stock Incentive Plans**

We have one long-term equity incentive plan which we refer to as the 2006 Equity Incentive Plan, which we first amended and restated as of April 20, 2015 and again on March 9, 2017 (“the Restated Plan”). The Restated Plan was approved by our stockholders at our annual stockholders meeting on June 8, 2017. We have reserved for issuance under the 2017 Restated Plan 14,000,000 shares of common stock. We can issue options (incentive and non-qualified), stock awards, stock appreciation rights, stock units and cash awards under the Restated Plan.

### **Options**

Certain options granted under the Restated Plan to employees are intended to qualify as incentive stock options under existing tax regulations. Stock options generally vest over three to five years and expire five to ten years from the date of grant.

As of December 31, 2020, we had outstanding options to acquire 527,899 shares of our common stock, of which options to acquire 307,196 shares were exercisable. The following summarizes all of our option transactions for the twelve months ended December 31, 2020:

<b>Outstanding Options Under the 2006 Plan</b>	<b>Shares</b>	<b>Weighted Average Exercise price Per Common Share</b>	<b>Weighted Average Remaining Contractual Life(in years)</b>	<b>Aggregate Intrinsic Value</b>
Balance, December 31, 2019	478,951	\$ 8.21		
Granted	48,948	20.43		
Balance, December 31, 2020	<u>527,899</u>	9.34	6.34	\$ 5,441,129
Exercisable at December 31, 2020	<u>307,196</u>	7.59	5.49	3,679,803

Aggregate intrinsic value in the table above represents the total pretax intrinsic value (the difference between our closing stock price on December 31, 2020 and the exercise price, multiplied by the number of in-the-money options as applicable) that would have been received by the holder had all holders exercised their options on December 31, 2020. As of December 31, 2020, total unrecognized stock-based compensation expense related to non-vested employee awards was \$0.6 million which is expected to be recognized over a weighted average period of approximately 1.50 years.

### ***DeepHealth Options***

During the second quarter of fiscal 2020, in connection with the completion of the DeepHealth acquisition, we granted 412,434 options at a grant date fair value of \$16.93 per share unit to DeepHealth employees in replacement of their stock options that were outstanding as of the closing date. As of December 31, 2020, total unrecognized stock based compensation expense related to non-vested DeepHealth options was approximately \$3.9 million which is expected to be recognized over a weighted average period of approximately 2.29 years.

<b>Outstanding Options Under the Deep Health Plan</b>	<b>Shares</b>	<b>Weighted Average Exercise price Per Common Share</b>	<b>Weighted Average Remaining Contractual Life (in years)</b>	<b>Aggregate Intrinsic Value</b>
Balance, December 31, 2019	—			
Granted, June 1, 2020	412,434	\$ —		
Exercised	<u>(11,895)</u>	—		
Balance, December 31, 2020	<u>400,539</u>	—	8.40	\$ 7,710,376
Exercisable at December 31, 2020	26,545	—	8.40	510,994



### **Restricted Stock Awards (“RSA’s”)**

The Restated Plan permits the award of restricted stock awards (“RSA’s”). As of December 31, 2020, we have issued a total of 6,551,872 RSA’s of which 329,159 were unvested at December 31, 2020. The following summarizes all unvested RSA’s activities during the twelve months ended December 31, 2020:

	RSA’s	Weighted- Average Remaining Contractual Term (Years)	Weighted- Average Fair Value
RSA’s unvested at December 31, 2019	387,934		\$ 11.61
Changes during the period			
Granted	457,596		\$ 19.66
Vested	(516,371)		\$ 16.37
RSA’s unvested at December 31, 2020	<u>329,159</u>	<u>0.87</u>	<u>\$ 16.69</u>

We determine the fair value of all RSA’s based of the closing price of our common stock on award date.

### **Other stock bonus awards**

The Restated Plan also permits the award of stock bonuses not subject to any future service period. These awards are valued and expensed based on the closing price of our common stock on the date of award. During the twelve months ended December 31, 2020 we issued 66,078 shares relating to these awards, approximately amounting to \$1.0 million of compensation expense.

### **Plan summary**

In summary, of the 14,000,000 shares of common stock reserved for issuance under the Restated Plan, at December 31, 2020, we had issued 15,424,316 total shares between options, RSA’s and other stock awards. With options cancelled and RSA’s forfeited amounting to 3,281,040 and 61,703 shares, respectively, there remain 1,918,427 shares available under the Restated Plan for future issuance.

### **NOTE 12 – SUBSEQUENT EVENTS**

On January 1, 2021 we entered into the Simi Valley Imaging Group, LLC, a partnership with Simi Valley Hospital and Health Services (“Simi Adventist”). The operation will offer multi-modality imaging services out of two locations in Ventura County, California. Total investment in the venture is \$0.5 million. RadNet contributed \$0.3 million in assets for a 60% economic interest and Simi Adventist contributed assets totaling \$0.2 million for a 40% economic interest.

Over January and February 2021, we completed additional acquisitions of ZP companies in the New York City area for total purchase consideration of approximately \$53.4 million.

In March 2021, we received \$6.2 million in general distribution funds under the CARES Act.

**Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

**Item 9A Controls and Procedures**

***Evaluation of Disclosure Controls and Procedures***

Under the supervision of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures under Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended, as of December 31, 2020. Based on this evaluation, our Principal Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2020.

***Limitations on Effectiveness of Controls and Procedures***

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with existing policies or procedures may deteriorate.

***Management's Report on Internal Control over Financial Reporting***

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles ("GAAP"). Internal control over financial reporting includes policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the Company are transacted in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Our management, under the supervision of our Principal Executive Officer and Principal Financial Officer, conducted an assessment of the effectiveness of its internal control over financial reporting as of December 31, 2020 based on the criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this assessment, management concluded that our internal control over financial reporting was effective as of December 31, 2020.

Ernst & Young LLP, the Company's independent registered public accounting firm, has audited the Company's internal control over financial reporting as of December 31, 2020, as stated in their report, which is included below in this Annual Report on Form 10-K.

***Changes in Internal Control over Financial Reporting***

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the quarter ended December 31, 2020, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **Report of Independent Registered Public Accounting Firm**

To the Stockholders and the Board of Directors of RadNet, Inc.

### **Opinion on Internal Control Over Financial Reporting**

We have audited RadNet, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, RadNet, Inc. and subsidiaries' (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2020 and 2019, the related consolidated statements of operations, comprehensive (loss) income, equity and cash flows for each of the three years in the period ended December 31, 2020, and the related notes and our report dated March 16, 2021 expressed an unqualified opinion thereon.

### **Basis for Opinion**

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### **Definition and Limitations of Internal Control Over Financial Reporting**

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

Los Angeles, California  
March 16, 2021

**Item 9B. Other Information.**

None.

## PART III

### **Item 10. Directors, Executive Officers and Corporate Governance**

The information required by this Item 10 will be included under the captions “Directors,” “Executive Officers,” “Corporate Governance,” and “Delinquent Section 16(a) Reports” in our definitive Proxy Statement for the 2021 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of our fiscal year (the “Proxy Statement”) and is incorporated herein by reference.

We have adopted a code of financial ethics applicable to our directors, officers and employees which is designed to deter wrongdoing and to promote:

- honest and ethical conduct;
- full, fair, accurate, timely and understandable disclosure in reports and documents that we file with the SEC and in our other public communications;
- compliance with applicable laws, rules and regulations, including insider trading compliance; and
- accountability for adherence to the code and prompt internal reporting of violations of the code, including illegal or unethical behavior regarding accounting or auditing practices.

You may obtain a copy of our Code of Financial Ethics on our website at [www.radnet.com](http://www.radnet.com) under Investor Relations — Corporate Governance. The Audit Committee is responsible for reviewing the Code of Financial Ethics and amending as necessary. Any amendments will be disclosed on our website.

### **Item 11. Executive Compensation**

The information required by this Item 11 will be included under the captions “Compensation of Directors,” “Compensation Committee Report,” “Compensation Discussion and Analysis,” and “Executive Compensation Tables” in the Proxy Statement and is incorporated herein by reference.

### **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information required by this Item 12 will be included under the captions “Security Ownership of Certain Beneficial Owners and Management” and “Equity Compensation Plan Information” in the Proxy Statement and is incorporated herein by reference.

### **Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information required by this Item 13 will be included under the captions “Compensation of Directors,” “Compensation Committee Report,” “Compensation Discussion and Analysis”, and “Executive Compensation Tables” in the Proxy Statement and is incorporated herein by reference.

### **Item 14. Principal Accountant Fees and Services**

The information required by this Item 14 will be included under the caption “Independent Registered Public Accounting Firm Fees” in the Proxy Statement and is incorporated herein by reference.

## PART IV

### Item 15. Exhibits and Financial Statements Schedule

#### **(a) Documents filed as part of this annual report on Form 10-K**

##### **(1) Financial Statements**

##### **Page No.**

The following financial statements are included in this report

Report of Independent Registered Public Accounting Firm .....	50
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##### **(2) Financial Statement Schedules**

Schedules are omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto.

The following exhibits are filed herewith or incorporated by reference herein:

<b>Exhibit No.</b>	<b>Description of Exhibit</b>
3.1	Certificate of Incorporation of RadNet, Inc., a Delaware corporation (incorporated by reference to exhibit filed with Form 8-K on September 4, 2008).
3.2	Certificate of Amendment to Certificate of Incorporation of RadNet, Inc., a Delaware corporation, dated September 2, 2008 (incorporated by reference to exhibit filed with Form 8-K on September 4, 2008).
3.3	Bylaws of RadNet, Inc., a Delaware corporation (incorporated by reference to Exhibit 3.1 of the Form 8-K filed on February 5, 2020).
4.1	Description of Securities (incorporated by reference the Description of Common Stock contained in the registration statement on Form S-3ASR filed on December 26, 2019)
10.1	Pledge and Security Agreement, dated October 10, 2012, by and among Radnet Management, Inc., RadNet, Inc., the guarantors thereunder, and Barclays Bank PLC (incorporated by reference to exhibit filed with Form 8-K on October 12, 2012).
10.2	Form of Trademark Security Agreement by and among the guarantors thereunder and Barclays Bank PLC (filed as an exhibit E to the Pledge and Security Agreement, dated October 10, 2012, by among the guarantors thereunder and Barclays Bank PLC, included as Exhibit 10.2).
10.3	Joinder Agreement, dated as of April 30, 2015, among Barclays Bank Plc, Radnet Management, Inc., a California corporation, Radnet Inc., a Delaware corporation, and certain affiliates and subsidiaries of Radnet Management Inc. (incorporated by reference to exhibit filed with Form 8-K on May 1, 2015).

- 10.4 Amendment No. 3 to Credit and Guaranty Agreement, dated as of July 1, 2016 by and among Radnet Management, Inc., Radnet, Inc. certain subsidiaries and affiliates of Radnet Management, Inc., the lenders party thereto from time to time, certain other financial institutions and Barclays Bank PLC, as administrative agent and collateral agent. (incorporated by reference to filed with Form 8-K/A on December 2, 2016).
- 10.5 Amendment No. 4 to Credit and Guaranty Agreement, dated as of February 2, 2017 by and among Radnet Management, Inc., Radnet, Inc. certain subsidiaries and affiliates of Radnet Management, Inc., the lenders party thereto from time to time, certain other financial institutions and Barclays Bank PLC, as administrative agent and collateral agent. (incorporated by reference to filed with Form 8-K on February 2, 2017).
- 10.6 Amendment No. 5, Consent and Incremental Joinder Agreement to Credit and Guaranty Agreement, dated as of August 22, 2017 by and among Radnet Management, Inc., RadNet, Inc., certain subsidiaries and affiliates of Radnet Management, Inc., the lenders party thereto, Barclays Bank PLC, as administrative agent and collateral agent and the lenders party thereto (incorporated by reference to exhibit filed with Form 8-K on August 23, 2017)
- 10.7 Amendment No. 6, Consent and Incremental Joinder Agreement to Credit and Guaranty Agreement dated as of April 18, 2019 by and among Radnet Management, Inc., RadNet, Inc., certain affiliates and subsidiaries of Radnet Management, Inc., and Barclays Bank Plc (incorporated by reference to exhibit filed with Form 8-K on April 19, 2019)
- 10.8 Amendment No. 7 to Credit and Guaranty Agreement dated as of April 18, 2019 by and among Radnet Management, Inc., RadNet, Inc., certain affiliates and subsidiaries of Radnet Management, Inc. and Barclays Bank Plc (incorporated by reference to exhibit filed with Form 8-K on April 19, 2019)
- 10.9 Amendment No. 8, Consent and Incremental Joinder Agreement to Credit and Guaranty Agreement dated as of August 28, 2020 by and among Radnet Management, Inc., RadNet, Inc., certain subsidiaries and affiliates of RadNet, Inc., as guarantors, the lenders party thereto from time to time and Barclays Bank PLC, as administrative agent and collateral agent (incorporated by reference to exhibit filed with Form 8-K on September 1, 2020)
- 10.10 RadNet, Inc. 2006 Equity Incentive Plan (Amended and Restated as of March 9, 2017) (incorporated by reference to exhibit filed with Form 8-K on June 13, 2017).
- 10.11 Form of Incentive Option Agreement for the 2006 Equity Incentive Plan (incorporated by reference to exhibit filed with Form S-8 registration statement on August 9, 2017).
- 10.12 Form of Nonstatutory Option Agreement for the 2006 Equity Incentive Plan (incorporated by reference to exhibit filed with Form S-8 registration statement on August 9, 2017).
- 10.13 Form of Restricted Stock Award for Officers under the 2006 Equity Incentive Plan (incorporated by reference to exhibit filed with Form S-8 registration statement on August 9, 2017).
- 10.14 Form of Restricted Stock Award for Non-Employee Directors under the 2006 Equity Incentive Plan (incorporated by reference to exhibit filed with Form S-8 registration statement on August 9, 2017).
- 10.15 Form of Restricted Stock Unit Agreement (deferred settlement) for Officers under the 2006 Equity Incentive Plan (incorporated by reference to exhibit filed with Form S-8 registration statement on August 9, 2017).
- 10.16 Form of Restricted Stock Unit Agreement (deferred settlement) for Non-Employee Directors under the 2006 Equity Incentive Plan (incorporated by reference to exhibit filed with Form S-8 registration statement on August 9, 2017).
- 10.17 Form of Indemnification Agreement between the registrant and each of its officers and directors (incorporated by reference to exhibit filed with Form 10-Q for the quarter ended March 31, 2008).\*
- 10.18 Nonqualified Deferred Compensation Plan, effective as of May 5, 2016 (incorporated by reference to exhibit filed with Form 8-K on May 9, 2016).
- 10.19 Employment Agreement dated as of June 12, 1992 with Howard G. Berger, M.D. (incorporated by reference to exhibit filed with an amendment to Form 8-K report for June 12, 1992).\*

- 10.20 Amendment to Employment Agreement dated January 30, 2004 with Howard G. Berger, M.D. (incorporated by reference to exhibit filed with Form 10-Q for the quarter ended January 31, 2004).\*
- 10.21 Second Amendment to Employment Agreement dated November 16, 2015 with Howard G. Berger, M.D. (incorporated by reference to exhibit filed with Form 10-K on March 15, 2016).
- 10.22 Employment Agreement dated as of May 1, 2001 with Norman R. Hames (incorporated by reference to exhibit filed with Form 10-K for the year ended October 31, 2001).\*
- 10.23 Amendment to Employment Agreement dated January 30, 2004 with Norman R. Hames (incorporated by reference to exhibit filed with Form 10-Q for the quarter ended January 31, 2004).\*
- 10.24 Second Amendment to Employment Agreement dated November 16, 2015 with Norman R. Hames (incorporated by reference to exhibit filed with Form 10-K on March 15, 2016).
- 10.25 Employment Agreement with Mark Stolper effective January 1, 2009 (incorporated by reference to exhibit filed with Form 10-K for the year ended December 31, 2009).\*
- 10.26 First Amendment to Employment Agreement dated November 16, 2015 with Mark Stolper (incorporated by reference to exhibit filed with Form 10-K on March 15, 2016).\*
- 10.27 Retention Agreement with Stephen Forthuber dated November 15, 2006 (incorporated by reference to exhibit filed with Form 10-K/T for the year ended December 31, 2006).\*
- 10.28 First Amendment to Retention Agreement dated November 16, 2015 with Stephen Forthuber (incorporated by reference to exhibit filed with Form 10-K on March 15, 2016).\*
- 10.29 Employment Agreement dated as of January 1, 2009 Stephen M. Forthuber (incorporated by reference to exhibit filed with Form 10-Q on May 10, 2017).\*
- 10.30 Amended and Restated Management and Service Agreement between Radnet Management, Inc. and Beverly Radiology Medical Group III dated January 1, 2004 (incorporated by reference to exhibit filed with Form 10-K for the year ended October 31, 2003).
- 10.31 Revolving Credit and Term Loan Agreement dated September 30, 2015 among New Jersey Imaging Network, LLC, the various lenders identified therein, and SunTrust Bank as administrative agent, issuing bank and swingline lender (incorporated by reference to exhibit filed with Form 10-K for the year ended December 31, 2018)
- 10.32 Amended and Restated Revolving Credit and Term Loan Agreement dated August 31, 2018 among New Jersey Imaging Network, LLC, the various lenders identified therein, and SunTrust Bank as administrative agent, issuing bank and swingline lender (incorporated by reference to exhibit filed with Form 10-K for the year ended December 31, 2018)
- 10.33 Employment Agreement dated as of March 2, 2020 with David J. Katz (incorporated by reference to exhibit 10.1 of the Form 8K/A filed on March 4, 2020).\*
- 21.1 List of Subsidiaries.
- 23.1 Consent of Independent Registered Public Accounting Firm.
- 24.1 Power of Attorney (included on signature page attached hereto).
- 31.1 CEO Certification pursuant to Section 302.
- 31.2 CFO Certification pursuant to Section 302.
- 32.1 CEO Certification pursuant to Section 906.
- 32.2 CFO Certification pursuant to Section 906.



101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.LAB	XBRL Label Linkbase Document
101.PRE	XBRL Presentation Linkbase Document
101.DEF	XBRL Definition Linkbase Document

\* Indicates management contract or compensatory plan.

Item 16. 10-K Summary

None.

## 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.

Date: March 16, 2021

/s/ HOWARD G. BERGER, M.D.

**Howard G. Berger, M.D., President,  
Chief Executive Officer and Director**

## POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below hereby severally constitutes and appoints Howard G. Berger, M.D. and Mark D. Stolper, and each of them, his true and lawful attorney-in-fact and agent, with full power of substitution and re-substitution for him and in his name, place and stead, in any and all capacities to sign any and all amendments to this report, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the SEC, granting unto said attorney-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite or necessary fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that each said attorneys-in-fact and agents or any of them or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of registrant in the capacities and on the dates indicated.

By /s/ HOWARD G. BERGER, M.D.

**Howard G. Berger, M.D., Director, Chief Executive Officer and President** Date: March 16, 2021

By /s/ JOHN V. CRUES, III, M.D.

**John V. Crues, III, M.D., Director** Date: March 16, 2021

By /s/ RUTH VILLIGER-WILSON

**Ruth Villiger-Wilson, Director** Date: March 16, 2021

By /s/ DAVID L. SWARTZ

**David L. Swartz, Director** Date: March 16, 2021

By /s/ LAWRENCE L. LEVITT

**Lawrence L. Levitt, Director** Date: March 16, 2021

By /s/ LAURA P. JACOBS

**Laura P. Jacobs, Director** Date: March 16, 2021

By /s/ MARK D. STOLPER

**Mark D. Stolper, Chief Financial Officer (Principal Accounting Officer)** Date: March 16, 2021

## **HEADQUARTERS**

RadNet, Inc.  
1510 Cotner Avenue  
Los Angeles, CA 90025  
(310) 478-7808

## **COMMON STOCK**

The Common Stock of RadNet, Inc. is listed on the NASDAQ Global Market under the symbol "RDNT."

## **TRANSFER AGENT**

American Stock Transfer  
& Trust Company, LLC  
6201 15th Avenue  
Brooklyn, NY 11219  
(718) 921-8124  
(800) 937-5449

## **INDEPENDENT AUDITORS**

Ernst & Young LLP  
Los Angeles, CA

## **EXECUTIVE OFFICERS**

Howard G. Berger, M.D.  
*President, CEO and Chairman  
of the Board*

Mark D. Stolper  
*Executive Vice President  
and Chief Financial Officer*

John V. Crues, III, M.D.  
*Medical Director*

Stephen M. Forthuber  
*President and Chief Operating  
Officer-Eastern Operations*

Norman R. Hames  
*President and Chief Operating  
Officer-Western Operations*

David J. Katz  
*Executive Vice President,  
General Counsel and  
Corporate Secretary*

Michael M. Murdock  
*Executive Vice President  
and Chief Development Officer*

Mital Patel  
*Executive Vice President of  
Financial Planning and  
Analysis, Chief Administrative  
Officer*

Ranjan Jayanathan  
*Executive Vice President and  
Chief Information Officer*

## **BOARD OF DIRECTORS**

Howard G. Berger, M.D.  
*President, CEO and Chairman  
of the Board  
RadNet, Inc.*

Marvin S. Cadwell  
*Retired*

John V. Crues, III, M.D.  
*Medical Director  
RadNet, Inc.*

Laura P. Jacobs  
*President  
Cheviot Health Advisors, LLC*

Lawrence L. Levitt  
*President and CFO  
Canyon Management Company*

David L. Swartz  
*President  
David L. Swartz Consulting, Inc.*

Ruth V. Wilson  
*Senior Vice President of  
Human Resources  
RadNet, Inc.*

