ALLIANCE IMAGING INC /DE/
Form 424B3
February 11, 2008

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Registration Statement No. 333-148856

PROSPECTUS

OFFER TO EXCHANGE

$150,000,000 principal amount of its $7^1/_4$% Series B Senior Subordinated Notes due 2012 which have been registered under the Securities Act, for any and all of its outstanding $7^1/_4$% Senior Subordinated Notes due 2012

The exchange offer expires at 12:00 a.m., New York City time, on March 11, 2008, unless extended.

- We will exchange all outstanding notes that are validly tendered and not validly withdrawn for an equal principal amount of a new series of notes which are registered under the Securities Act.
- The exchange offer is not subject to any conditions other than that it not violate applicable law or any applicable interpretation of the staff of the Securities and Exchange Commission.
- You may withdraw tenders of outstanding notes at any time before the exchange offer expires.
- The exchange of notes will not be a taxable event for U.S. federal income tax purposes.
- We will not receive any proceeds from the exchange offer.
- The terms of the new series of notes are substantially identical to the outstanding notes, except for transfer restrictions and registration rights relating to the outstanding notes.
- You may tender outstanding notes only in denominations of $1,000 and multiples of $1,000.
- Our affiliates may not participate in the exchange offer.

Please refer to "Risk Factors" beginning on page 9 of this prospectus for a description of the risks you should consider before buying the notes.

We are not making this exchange offer in any state where it is not permitted.

Neither the Securities and Exchange Commission nor any state securities commission has approved of the notes or determined that this prospectus is accurate or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is February 11, 2008

We have not authorized any dealer, salesperson or other people to give any information or make any representations to you other than the information contained in this prospectus. You must not rely on any information or representations not contained in this prospectus as if we had authorized it. This prospectus does not offer to sell or solicit an offer to buy any securities other than the registered notes to which it relates, nor does it offer to buy any of these notes in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction.

The information contained in this prospectus is current only as of the date on the cover page of this prospectus, and may change after that date.

This prospectus incorporates important business and financial information about us that is not included in or delivered with this prospectus. This information is available without charge to you upon written or oral request. If you would like a copy of any of this information, please submit your request to Alliance Imaging, Inc., 1900 S. State College Blvd., Suite 600, Anaheim, California 92806, Attention: Investor Relations, tel: (714) 688-7100. In addition, to obtain timely delivery of any information you request, you must submit your request no later than March 4, 2008, which is five business days before the date the exchange offer expires.

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CAUTIONARY DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

We have made statements under the captions "Prospectus Summary," "Risk Factors," "Use of Proceeds," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business" and elsewhere in this prospectus and in the documents incorporated by reference herein that are forward-looking statements. In some cases you can identify these statements by forward-looking words such as "may", "will", "should", "expect", "plans", "anticipate", "believe", "estimate", "predict", "seek", "intend" and "continue" or similar words. Forward-looking statements may also use different phrases. Forward-looking statements address, among other things, our future expectations, projections of our future results of operations or of our financial condition and other forward-looking information.

We believe it is important to communicate our expectations to our investors. However, there may be events in the future that we are not able to accurately predict or that we do not fully control that could cause actual results to differ materially from those expressed or implied by our forward-looking statements, including:

- our high degree of leverage and our ability to service our debt;
- factors affecting our leverage, including interest rates;
- the risk that the counter-parties to our interest rate swap agreements fail to satisfy their obligations under these agreements;
- the effect of operating and financial restrictions in our debt agreements;
- our estimates regarding our capital requirements;
- changes in the rates or methods of third-party reimbursements for diagnostic imaging services;
- fluctuations or unpredictability of our revenues, including as a result of seasonality;
- intense levels of competition in the diagnostic imaging services and imaging systems industry;
- changes in the healthcare regulatory environment;
- our ability to keep pace with technological developments within our industry;
- the growth in the market for MRI and other services;
- the disruptive effect of hurricanes and other natural disasters;
- our ability to successfully integrate any past or future acquisitions; and
- other factors discussed under "Risk Factors."

MARKET AND INDUSTRY DATA

This prospectus contains statistical data that we obtained from public industry publications. These publications generally indicate that they have obtained their information from sources believed to be reliable, but do not guarantee the accuracy and completeness of their information. Although we believe that the publications are reliable, we have not independently verified market industry data provided by third parties, and we take no further responsibility for this data. Similarly, while we believe our management's estimates with respect to our industry are reliable, our estimates have not been verified by any independent sources, and we cannot assure you that they are accurate.

PROSPECTUS SUMMARY

In this prospectus, the words "we," "us," "our," "Alliance" and "the Company" refer to Alliance Imaging, Inc., the issuer of the notes, and its subsidiaries. The following summary contains basic information about the Company and this offering. You should read this entire prospectus, including our financial statements, the notes to those financial statements and the other financial information included and incorporated by reference in this prospectus, carefully before making an investment decision. It likely does not contain all the information that is important to you. For a more complete understanding of this offering, we encourage you to read this entire document and the documents we have referred you to. Our fiscal year ends on December 31 of each year.

We will refer to the offering of the private notes as the "private offering." Unless indicated otherwise, the term "notes" refers to both the private notes and the exchange notes.

Our Company

We are a leading national provider of shared-service and fixed-site diagnostic imaging services, based upon annual revenue and number of diagnostic imaging systems deployed. Our principal sources of revenue are derived from magnetic resonance imaging (MRI) and positron emission tomography and positron emission tomography/computed tomography (PET and PET/CT). We provide imaging and therapeutic services primarily to hospitals and other healthcare providers on a shared and full-time service basis. We also provide services through a growing number of fixed-sites, primarily to hospitals or health systems. Our services normally include the use of our imaging systems, technologists to operate the systems, equipment maintenance and upgrades and management of day-to-day shared-service and fixed-site diagnostic imaging operations. We also provide non-scan-based services, which include only the use of our imaging systems under a short-term contract.

We have also leveraged our leadership in MRI, PET and PET/CT to expand into radiation oncology. Our radiation oncology business is operated through our affiliate, Alliance Oncology, LLC ("AO"), and includes a wide range of services for cancer patients covering initial consultation, preparation for treatment, simulation of treatment, actual radiation therapy delivery, therapy management and follow-up care. Our services include the use of our linear accelerators, therapists to operate such systems, administrative staff, equipment maintenance and upgrades, and management of day-to-day operations.

For the nine months ended September 30, 2007, MRI services and PET and PET/CT services generated 60% and 31% of our revenue, respectively. The remaining revenue was comprised of other modality diagnostic imaging services revenue, primarily computed tomography (CT), and management contract revenue. We had 470 diagnostic imaging systems, including 310 MRI systems and 76 PET or PET/CT systems and served over 1,000 clients in 43 states at September 30, 2007. Of these 470 diagnostic imaging systems, 74 were located in fixed-sites, which constitutes systems installed in hospitals or other buildings on hospital campuses, including modular buildings, systems installed inside medical groups' offices, or medical buildings, and free-standing fixed-sites, which includes systems installed in a medical office building, ambulatory surgical center, or other retail space. We also operated three radiation centers as of September 30, 2007. In November 2007, we acquired a fixed-site provider of MRI and CT, which operates seven fixed-sites and one mobile MRI system. Also in November 2007, AO purchased eight radiation therapy centers.

Approximately 90% of our revenues for the nine months ended September 30, 2007 were generated by providing services to hospitals and other healthcare providers, which we refer to as wholesale revenues. Our wholesale revenues are due to us independently of our clients' receipt of reimbursement from third-party payors. For shared-service customers, we typically deliver our services for a set number of days per week through exclusive, long-term contracts with hospitals and other healthcare providers. The initial terms of these contracts average approximately three years in length.

The initial terms of our contracts for our fixed-sites average approximately five to 10 years. Our contracts for radiation therapy services average approximately 10 to 20 years in length.

Our clients, primarily small-to-mid-sized hospitals, contract with us to provide diagnostic imaging systems and services in order to:

- take advantage of our extensive diagnostic imaging and project management experience;
- avoid capital investment and financial risk associated with the purchase of their own systems;
- provide access to MRI, PET and PET/CT, and other services for their patients when the demand for these services does not justify the purchase of dedicated, full-time systems;
- benefit from upgraded systems without direct capital expenditures;
- eliminate the need to recruit, train and manage qualified technologists;
- make use of our ancillary services; and
- gain access to services under our regulatory and licensing approvals when they do not have these approvals.

Our Competitive Strengths

We believe we benefit from the following competitive strengths:

- Our position as a leading national provider of shared-service and fixed-site MRI and PET and PET/CT services, based on annual revenue and number of diagnostic imaging systems deployed;
- Our ability to provide comprehensive diagnostic and treatment solutions;
- Exclusive, long-term contracts with a diverse client base;
- Reduced reimbursement risk because we generate approximately 90% of our revenues by billing hospitals and other healthcare providers rather than patients or other third-party payors;
- Our generation of stable and significant cash flows and maintenance of attractive margins over a sustained period of time;
- Our experienced management team, including our executive officers who collectively have over 50 years of industry experience; and
- Our advanced MRI, PET and PET/CT, and radiation therapy systems.

Despite the competitive strengths discussed above, we face a number of challenges in growing our business. We currently have a substantial amount of indebtedness, which places financial and other limitations on our business. Our business is also subject to a number of other risks described in "Risk Factors."

Our Services

As of September 30, 2007, we provided our outsourcing services on the following bases:

- Shared service;
- Full-time service; and
- Interim and rental services.

Our Strategy

Key components of our strategy include:

- Focus on continued diversification through growth products, including PET/CT, fixed-sites and radiation therapy;
- Improvement of our sales management and sales support infrastructure to improve the pace of new business;
- Improved operating efficiency, including reducing our cost structure and improving asset allocation;
- Focus on patient care and customer service;
- Focus on a unified culture, based upon a shared set of core values; and
- Maintenance of our market positions by selectively pursuing strategic acquisitions.

Acquisitions

On November 2, 2007, Alliance Oncology, LLC, an affiliate of ours, purchased eight radiation therapy centers in Alabama, Arkansas, Mississippi and Missouri from Bethesda Resources, Inc., a wholly owned subsidiary of Sonix, Inc. (the "Sonix Acquisition"). Many of these centers are sole community providers and are located near hospital campuses. Several of them operate under certificates of need. The total purchase price consisted of approximately $36 million in cash and assumed debt. Revenue from the Sonix Acquisition is expected to total approximately $14 million in 2007, on an annualized basis. On November 5, 2007, we purchased all of the outstanding shares of the New England Health Enterprises Business Trust ("NEHE") and all of the outstanding membership interests of New England Imaging Management, LLC, a fixed-site provider of MRI and CT (the "NEHE Acquisition"). NEHE operates seven fixed-sites and one mobile MRI system in Maine and Massachusetts. The total purchase price, which includes amounts paid for the purchase of certain minority interests in addition to the shares of NEHE and membership interests of New England Imaging Management, LLC, consisted of approximately $49 million in cash and assumed liabilities. Revenue from the NEHE Acquisition is expected to total approximately $20 million in 2007, on an annualized basis. We financed these acquisitions through internally generated funds, capital leases and the Acquisition Credit Facility described elsewhere in this prospectus. We used the proceeds from the private offering to repay and terminate the Acquisition Credit Facility.

Our Sponsors

On April 16, 2007, OCM Principal Opportunities Fund IV, L.P., MTS Health Investors II, L.P., and affiliated funds (together, the "Oaktree Parties"), acquired approximately 49.7% of our outstanding shares of common stock from a fund controlled by an affiliate of Kohlberg Kravis Roberts & Co., L.P. ("KKR"). KKR no longer owns any shares of the Company. OCM Principal Opportunities Fund IV, L.P. is a commingled investment fund managed by Oaktree Capital Management, L.P. ("Oaktree"), a leading alternative asset manager that manages in excess of $51 billion in capital on behalf of institutional and high net worth investors in non-mainstream and alternative investment strategies, including high yield bonds, convertible securities, distressed debt, private equity, mezzanine, real estate, emerging market equities and Japanese equities. Oaktree is headquartered in Los Angeles, California and maintains other offices in Beijing, Frankfurt, Hong Kong, London, New York, Seoul, Shanghai, Singapore, Stamford (Connecticut), Tokyo and, through fund affiliates, Luxembourg.

MTS Health Investors, LLC ("MTS"), located in New York, New York, is a healthcare private equity firm that makes equity investments in the buyout, recapitalization or growth financing of healthcare operating companies. MTS focuses on businesses that operate in services sectors of the healthcare industry-managed care/health insurance, providers of healthcare services, distributors of medical products and pharmaceuticals, manufacturers of medical products and low-technology devices and providers of outsourced services to the healthcare industry.

We are a Delaware corporation with our principal executive offices located at 1900 S. State College Blvd., Suite 600, Anaheim, California 92806. Our telephone number at that location is (714) 688-7100. Our website is located at *www.allianceimaging.com*. The information contained on our website is not a part of this prospectus.

The Exchange Offer

The Exchange Offer	We are offering to exchange the exchange notes for the outstanding private notes that are properly tendered and accepted. You may tender outstanding private notes only in denominations of $1,000 and multiples of $1,000. We will issue the exchange notes on or promptly after the exchange offer expires. As of the date of this prospectus, $150,000,000 aggregate principal amount of private notes is outstanding.
Expiration Date	The exchange offer will expire at 12:00 a.m., New York City time, on March 11, 2008, unless extended, in which case the expiration date will mean the latest date and time to which we extend the exchange offer.
Conditions to the Exchange Offer	The exchange offer is not subject to any condition other than that it not violate applicable law or any applicable interpretation of the staff of the Securities and Exchange Commission (the "SEC"). The exchange offer is not conditioned upon any minimum principal amount of private notes being tendered for exchange.
Procedures for Tendering Private Notes	If you wish to tender your private notes for exchange notes pursuant to the exchange offer: You must comply with the Automated Tender Offer Program procedures of The Depository Trust Company ("DTC"); and The Bank of New York Trust Company, N.A., the exchange agent, must receive timely confirmation of a book-entry transfer of the private notes into its account at DTC through DTC's Automated Tender Offer Program pursuant to the procedure for book-entry transfer described herein, along with a properly transmitted agent's message, before the expiration date. By tendering the private notes pursuant to the exchange offer, you will make the representations to us described under "The Exchange Offer Procedures for Tendering."

Acceptance of the Private Notes and Delivery of the Exchange Notes	Subject to the satisfaction or waiver of the conditions to the exchange offer, we will accept for exchange any and all private notes which are validly tendered in the exchange offer and not withdrawn before 12:00 a.m., New York City time, on the expiration date.
Withdrawal Rights	You may withdraw the tender of your private notes at any time before 12:00 a.m., New York City time, on the expiration date, by complying with the procedures for withdrawal described in this prospectus under the heading "The Exchange Offer Withdrawal of Tenders."
Certain Federal Tax Consequences	The exchange of notes will not be a taxable event for U.S. federal income tax purposes. For a discussion of certain federal tax considerations relating to the exchange of notes, see "Material U.S. Federal Income Tax Considerations."
Exchange Agent	The Bank of New York Trust Company, N.A., the trustee under the indenture governing the notes, is serving as the exchange agent.
Consequences of Failure to Exchange	If you do not exchange your private notes for exchange notes, you will continue to be subject to the restrictions on transfer provided in the private notes and in the indenture governing the private notes. In general, the private notes may not be offered or sold, unless registered under the Securities Act of 1933, as amended (the "Securities Act"), except pursuant to an exemption from, or in a transaction not subject to, the Securities Act and applicable state securities laws.
Registration Rights Agreement	You are entitled to exchange your private notes for exchange notes with substantially identical terms. This exchange offer satisfies this right. After the exchange offer is completed, you will no longer be entitled to any exchange or registration rights with respect to your private notes.

We explain the exchange offer in greater detail beginning on page 23.

The Exchange Notes

The summary below describes the principal terms of the exchange notes. Certain of the terms and conditions described below are subject to important limitations and exceptions. The "Description of the Notes" section of this prospectus contains a more detailed description of the terms and conditions of the exchange notes.

The form and terms of the exchange notes are the same as the form and terms of the private notes, except that the exchange notes will be registered under the Securities Act and, therefore, the exchange notes will not be subject to the transfer restrictions, registration rights and provisions providing for an increase in the interest rate applicable to the private notes. The exchange notes will evidence the same debt as the private notes and are governed by the same indenture as the private notes.

Issuer	Alliance Imaging, Inc.
Securities Offered	\$150,000,000 aggregate principal amount of 7 1/4% series B senior subordinated notes due 2012. The notes have terms that are substantially identical to our \$150,000,000 aggregate principal amount of 7 1/4% senior subordinated notes due 2012 issued in December 2004, but were issued under a new indenture and are therefore a separate series of notes and are not fungible and do not vote as a class with our outstanding 7 1/4% senior subordinated notes due 2012.
Maturity	December 15, 2012.
Interest Rate	7 1/4% per year (calculated using a 360-day year).
Interest Payment Dates	June 15 and December 15 of each year.
Ranking	The notes are unsecured senior subordinated obligations of the Company, rank junior in right of payment to all of our existing and future senior debt, and rank *pari passu* in right of payment to all of our existing and future senior subordinated debt, including our outstanding 7 1/4% senior subordinated notes due 2012. The notes are effectively subordinated in right of payment to all obligations of our subsidiaries. As of September 30, 2007, after giving effect to the use of proceeds from the private offering, we had approximately \$376.8 million of indebtedness senior in right of payment to the notes and approximately \$64.1 million available for borrowing as additional senior debt under the amended credit facility. Our subsidiaries had total liabilities, together with guarantees of indebtedness, of approximately \$377.1 million (of which \$366.6 million represents guarantees of the amended credit facility) which are structurally senior to the notes. See "Selected Consolidated Financial Data," "Risk Factors Risks Related to Our Indebtedness" and "Description of the Notes Subordination."
Optional Redemption	We may redeem some or all of the notes at the redemption prices listed under "Description of the Notes Optional Redemption," plus accrued and unpaid interest.

Change of Control

If a change in control of the Company occurs, we must give holders of the notes the opportunity to sell us their notes at 101% of their face amount, plus accrued interest.

We might not be able to pay you the required price for notes you present to us at the time of a change of control because:

- we might not have enough funds at that time; and
- the terms of our senior debt may prevent us from paying.

See "Risk Factors Risks Related to the Notes We may not be able to repurchase notes upon a change of control, which would be an event of default under the indenture."

Asset Sale Proceeds

If we or our subsidiaries engage in asset sales, we generally must either invest the net cash proceeds from such sales in our business within a period of time, prepay senior debt or make an offer to purchase a principal amount of the notes equal to the excess net cash proceeds. The purchase price of the notes will be 100% of their principal amount, plus accrued interest.

Certain Indenture Provisions

The indenture governing the notes contains covenants limiting our (and most or all of our subsidiaries') ability to:

- pay dividends or make certain other restricted payments or investments;
- incur additional indebtedness and issue disqualified stock;
- create liens on assets;
- merge, consolidate, or sell all or substantially all of our and our restricted subsidiaries' assets;
- enter into certain transactions with affiliates;
- create restrictions on dividends or other payments by our restricted subsidiaries;
- create guarantees of indebtedness by restricted subsidiaries; and
- incur subordinated indebtedness that is senior in right of payment to the notes.

These covenants are subject to a number of important limitations and exceptions. See "Description of the Notes Certain Covenants."

Use of Proceeds

We will not receive any cash proceeds from the exchange offer.

We explain the exchange notes in greater detail beginning on page 72.

Summary Consolidated Financial Information

We derived the following summary historical consolidated financial information presented below from our financial statements. The following summary historical consolidated financial information with respect to each year in the three-year period ended December 31, 2006 are derived from our audited consolidated financial statements. We derived the summary historical consolidated financial information as of and for each of the nine months ended September 30, 2006 and 2007 from our unaudited consolidated financial information. Our unaudited consolidated financial information for each of the nine months ended September 30, 2006 and 2007 include, in the opinion of management, all adjustments consisting of normal recurring adjustments, necessary for a fair presentation of the results for the period. The results of interim periods are not indicative of our results for the full year. The summary historical consolidated financial information provided below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and notes thereto included and incorporated by reference in this prospectus.

	Year Ended December 31,			Nine Months Ended September 30,	
	2004	2005	2006	2006	2007
	(dollars in thousands)				
Consolidated Statements of Operations Data:					
Revenues	$ 432,080	$ 430,788	$ 455,775	$ 344,116	$ 331,324
Costs and expenses:					
Cost of revenues, excluding depreciation and amortization	217,605	226,294	244,254	182,621	173,158
Selling, general and administrative expenses	48,142	48,077	53,955	41,037	42,710
Employment agreement costs	2,064	366			
Severances and related costs	1,223	826	745	536	522
Loss on early retirement of debt	44,393				
Depreciation expense	80,488	82,505	83,397	62,738	62,039
Amortization expense	3,522	3,954	4,933	3,703	3,543
Interest expense, net	44,502	34,203	41,078	30,835	30,415
Other (income) and expense, net	(484)	(399)	45	298	(523)
Total costs and expenses	441,455	395,826	428,407	321,768	311,864
Income (loss) before income taxes, minority interest expense and earnings from unconsolidated investees	(9,375)	34,962	27,368	22,348	19,460
Income tax (benefit) expense	(6,955)	14,758	12,032	10,204	10,199
Minority interest expense	2,373	1,718	2,075	1,586	1,315
Earnings from unconsolidated investees	(4,029)	(3,343)	(5,371)	(4,145)	(6,450)
Net (loss) income	$ (764)	$ 21,829	$ 18,632	$ 14,703	$ 14,396
Consolidated Balance Sheet Data (at end of period):					
Cash and cash equivalents	$ 20,721	$ 13,421	$ 16,440	$ 12,914	$ 34,326
Total assets	622,198	675,342	664,526	674,268	693,133
Long-term debt, including current maturities	575,664	579,582	529,425	543,758	530,343
Stockholders' (deficit) equity	(67,528)	(40,256)	(16,974)	(22,208)	1,020
Other Data:					
Cash flows provided by (used in):					
Operating activities	120,898	127,074	115,838	77,167	80,355
Investing activities	(75,558)	(134,437)	(63,520)	(43,909)	(61,241)
Financing activities	(45,550)	63	(49,299)	(33,765)	(1,228)
Capital expenditures	85,676	76,460	75,007	56,516	45,166

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RISK FACTORS

You should carefully consider the risk factors set forth below as well as the other information contained and incorporated by reference in this prospectus before making a decision to tender your private notes in the exchange offer. The risk factors set forth below are generally applicable to the private notes as well as the exchange notes. The risks described below are not the only risks that we face.

Risks Related to Our Indebtedness

We are highly leveraged. As of September 30, 2007, after giving effect to the use of proceeds from the private offering, we had $680.3 million of outstanding debt, excluding letters of credit, and approximately $64.1 million was available for borrowing under our amended credit facility.

Our substantial indebtedness could restrict our operations and make us more vulnerable to adverse economic conditions.

Our substantial indebtedness could have important consequences to you. For example, it could:

- require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and acquisitions and other general corporate purposes;
- increase our vulnerability to economic downturns and competitive pressures in our industry;
- place us at a competitive disadvantage compared to our competitors that have less debt in relation to cash flow; and
- limit our flexibility in planning for, or reacting to, changes in our business and our industry.

If there is a default under the agreements governing our material indebtedness, the value of our assets may not be sufficient to repay our creditors.

Our property and equipment, which make up a significant portion of our tangible assets, had a net book value of $328.5 million as of September 30, 2007. The book value of these assets should not be relied on as a measure of realizable value for such assets. The realizable value may be lower than such net book value. The value of our assets in the event of liquidation will depend upon market and economic conditions, the availability of buyers and similar factors. A sale of these assets in a bankruptcy or similar proceeding would likely be made under duress, which would reduce the amounts that could be recovered. Furthermore, such a sale could occur when other companies in our industry also are distressed, which might increase the supply of similar assets and therefore reduce the amounts that could be recovered. Our goodwill and other intangible assets had a net book value of $182.5 million as of September 30, 2007. These assets primarily consist of the excess of the acquisition cost over the fair market value of the net assets acquired in purchase transactions, customer contracts and costs to obtain certificates of need. The value of goodwill and other intangible assets will continue to depend significantly upon the success of our business as a going concern and the growth in future cash flows. As a result, in the event of a default under the agreements governing our material indebtedness or any bankruptcy or dissolution of our company, the realizable value of these assets will likely be substantially lower and may be insufficient to satisfy the claims of our creditors.

The financial condition of our assets will likely deteriorate during any period of financial distress preceding a sale of our assets. In addition, much of our assets consist of illiquid assets that may have to be sold at a substantial discount in an insolvency situation. Accordingly, the proceeds of any such sale of our assets may not be sufficient to satisfy, and may be substantially less than, amounts due to our creditors.

Despite current indebtedness levels, we and our subsidiaries may still be able to incur substantially more indebtedness which could increase the risks described above.

We and our subsidiaries may be able to incur substantial additional indebtedness in the future. The terms of the indentures that govern our existing $7^1/_4$% senior subordinated notes due 2012 and the notes permit us or our subsidiaries to incur additional indebtedness, subject to certain restrictions. Further, the indentures allow for the incurrence of indebtedness by our subsidiaries, all of which would be structurally senior to the notes. In addition, as of September 30, 2007, after giving effect to the use of proceeds from the private offering, our amended credit facility permitted additional borrowings of up to approximately $64.1 million subject to the covenants contained in the amended credit facility, and all of those borrowings were senior to the notes. If new debt is added to our and our subsidiaries' current debt levels, the risks discussed above could intensify.

If we are unable to generate or borrow sufficient cash to make payments on our indebtedness or to refinance our indebtedness on acceptable terms, our financial condition would be materially harmed, our business may fail and you may lose all of your investment.

Our ability to make scheduled payments on or to refinance our obligations with respect to our debt will depend on our financial and operating performance, which will be affected by general economic, financial, competitive, business and other factors beyond our control. We cannot assure you that our business will generate sufficient cash flow from operations or that future borrowings will be available to us in an amount sufficient to enable us to service our debt or to fund our other liquidity needs. If we are unable to meet our debt obligations or fund our other liquidity needs, we may need to restructure or refinance all or a portion of our debt on or before maturity or sell certain of our assets. We cannot assure you that we will be able to restructure or refinance any of our debt on commercially reasonable terms, if at all, which could cause us to default on our debt obligations and impair our liquidity. Any refinancing of our debt could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations.

We may not be able to finance future needs or adapt our business plan to changes because of restrictions placed on us by our amended credit facility, the indentures governing our existing $7^1/_4$% senior subordinated notes and the notes, and instruments governing our other indebtedness.

The indenture for our existing $7^1/_4$% senior subordinated notes, our amended credit facility, and the indenture for the notes, contain affirmative and negative covenants which restrict, among other things, our ability to:

- incur additional debt;
- sell assets;
- create liens or other encumbrances;
- make certain payments and dividends; and
- merge or consolidate.

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 relevant facility, together with accrued interest and fees, to be immediately due and payable. If the indebtedness under the amended credit facility, our existing $7^1/_4$% senior subordinated notes or the notes is accelerated, we may not have sufficient assets to repay amounts due under the amended credit facility, the notes or any other indebtedness then outstanding. If we are not able to refinance our debt, we could become subject to bankruptcy proceedings, and you may lose all or a portion of your investment because the claims of certain of our creditors on our assets are prior to the claims of holders of the notes.

Rises in interest rates could adversely affect our financial condition.

An increase in prevailing interest rates would have an immediate effect on the interest rates charged on our variable rate debt, which rise and fall upon changes in interest rates. At September 30, 2007, $366.6 million of our debt was at variable interest rates. However, during 2005, we entered into multiple interest rate collar agreements which have a total notional amount of $178.0 million, which reduces our exposure on our total variable rate to the terms of these agreements. Under the terms of these agreements, we have purchased a cap on the interest rate of 4.00% and have sold a floor of 2.25%. As of September 30, 2007, we had a total notional amount of $138.0 million in collar agreements outstanding, which mature in January 2008. Increases in interest rates would also impact the refinancing of our fixed rate debt. If interest rates are higher when our fixed debt becomes due, we may be forced to borrow at the higher rates. If prevailing interest rates or other factors result in higher interest rates, the increased interest expense would adversely affect our cash flow and our ability to service our debt. As a protection against rising interest rates, we may enter into agreements such as interest rate swaps, caps, floors and other interest rate exchange contracts. These agreements carry the risks that the other parties to the agreements may not perform or that the agreements could be unenforceable.

Risks Related to Our Business

Changes in the rates or methods of third-party reimbursements for diagnostic imaging services could result in reduced demand for our services or create downward pricing pressure, which would result in a decline in our revenues and harm to our financial position.

We derive approximately 10% of our revenues from direct billings to patients and third-party payors such as Medicare, Medicaid or private health insurance companies, and changes in the rates or methods of reimbursement for the services we provide could have a significant negative impact on those revenues. Moreover, our healthcare provider clients on whom we depend for the majority of our revenues generally rely on reimbursement from third-party payors. If our clients receive decreased reimbursement, this could result in a reduced demand for our services or downward pricing pressures, which could have a material impact on our financial position.

From time to time, changes designed to contain healthcare costs have been proposed, some of which have resulted in decreased reimbursement rates for diagnostic imaging services. For example, on February 8, 2006, the Deficit Reduction Act of 2005, or DRA, was signed into law by President George W. Bush. The DRA imposes caps on Medicare payment rates for certain imaging services, including MRI, PET and CT, furnished in physician's offices and other non-hospital based settings. Under the caps, payments for specified imaging services cannot exceed the hospital outpatient payment rates for those services. This change applies to services furnished on or after January 1, 2007. The caps are applicable to the technical component of the services only (which is the payment we receive for the services for which we bill directly under the Medicare Physician Fee Schedule). If the technical component of the service established under the Physician Fee Schedule (without including geographic adjustments) exceeds the hospital outpatient payment amount for the service (also without including geographic adjustments), then the payment is to be reduced. In other words, in those instances where the technical component for the particular service is greater for the non-hospital site, the DRA directs that the hospital outpatient payment rate be substituted for the otherwise applicable Physician Fee Schedule payment rate. The implementation of this reimbursement reduction contained in the DRA has had and will continue to have a significant effect on our financial condition and results of operations in 2007.

In addition, on November 1, 2006, the Centers for Medicare and Medicaid Services ("CMS") issued a final rule for the Medicare Part B hospital outpatient prospective payment system, or HOPPS reimbursement rates for PET and PET/CT imaging procedures, effective January 1, 2007. For 2007, the national rate for PET scans was reduced from the rate of $1,150 per scan in 2006 to $855 per scan. In addition, for 2007, the national rate for PET/CT scans was reduced from the rate of $1,250 per scan in 2006 to $950 per scan.

For full year 2006, we estimate that approximately 5.6% of our revenue was billed directly to the Medicare program. If the DRA had been in effect for full year 2006, we estimate the reduction in Medicare revenue due to the DRA reimbursement rate decrease would have b