ALLIANCE IMAGING INC /DE/
Form S-4/A
June 14, 2001

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JUNE 13, 2001

REGISTRATION STATEMENT NO. 333-60682

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 1
TO
FORM S-4

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

ALLIANCE IMAGING, INC.

(Exact Name of Registrant as Specified in its Charter)

DELAWARE	8071	33-0239910
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

1065 PACIFICENTER DRIVE, SUITE 200 ANAHEIM, CA 92806
(714) 688-7100

(Address, including zip code, and telephone number, including area code, of Registrant's principal executive office)

RUSSELL D. PHILLIPS, JR.
GENERAL COUNSEL AND SECRETARY
ALLIANCE IMAGING, INC.
1065 PACIFICENTER DRIVE, SUITE 200
ANAHEIM, CA 92806
(714) 688-7100

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

JAMES BEAUBIEN
LATHAM & WATKINS
633 WEST 5TH STREET, SUITE 4000
LOS ANGELES, CALIFORNIA 90071
(213) 485-1234

Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective.

If the securities being registered on this form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. / /

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration number of the earlier effective registration number for the same offering. / /

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier, effective registration statement for the same offering. / /

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE SEC, ACTING PURSUANT TO SECTION 8(A), MAY DETERMINE.

SUBJECT TO COMPLETION, DATED JUNE 13, 2001

THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. WE MAY NOT SELL OR OFFER THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL NOR DOES IT SEEK AN OFFER TO BUY THESE SECURITIES IN ANY JURISDICTION WHERE THE OFFER OR SALE IS NOT PERMITTED.

PROSPECTUS

[LOGO]

OFFER TO EXCHANGE
ITS 10 3/8% SENIOR SUBORDINATED NOTES DUE 2011,
WHICH HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933,
FOR ANY AND ALL OF ITS OUTSTANDING 10 3/8% SENIOR SUBORDINATED NOTES DUE 2011

THE EXCHANGE NOTES

- The terms of the notes we are issuing will be substantially identical to the outstanding notes that we issued on April 10, 2001, except for the elimination of some transfer restrictions, registration rights and liquidated damages provisions relating to the outstanding notes.

- The notes will bear interest at the rate of 10 3/8% per year. Interest on the notes is payable on April 15 and October 15 of each year, beginning on October 15, 2001. The notes will mature on April 15, 2011.

- The notes are subject to redemption under the circumstances and at the prices described in this prospectus.

- The notes will be unsecured senior subordinated obligations and will be subordinated in right of payment to all our existing and future senior debt, including our bank debt.

MATERIAL TERMS OF THE EXCHANGE OFFER

- The exchange offer expires at 5:00 p.m., New York City time, on , 2001, unless extended.

- Our completion of the exchange offer is subject to customary conditions, which we may waive.

- Upon our completion of the exchange offer, all outstanding notes that are validly tendered and not withdrawn will be exchanged for an equal principal amount of notes that are registered under the Securities Act of 1933.

- Tenders of outstanding notes may be withdrawn at any time prior to the expiration of the exchange offer.

- The exchange of registered notes for outstanding notes will not be a taxable exchange for U.S. Federal income tax purposes.

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

FOR A DISCUSSION OF FACTORS THAT YOU SHOULD CONSIDER BEFORE PARTICIPATING IN THIS EXCHANGE OFFER, SEE "RISK FACTORS" BEGINNING ON PAGE 9 OF THIS PROSPECTUS.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THE DATE OF THIS PROSPECTUS IS , 2001.

WE HAVE NOT AUTHORIZED ANY DEALER, SALESMAN OR OTHER PERSON TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION OTHER THAN THOSE CONTAINED IN THIS PROSPECTUS. YOU MUST NOT RELY UPON ANY INFORMATION OR REPRESENTATION NOT CONTAINED IN THIS PROSPECTUS AS IF WE HAD AUTHORIZED IT. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY SECURITIES OTHER THAN THE REGISTERED SECURITIES TO WHICH IT RELATES, NOR DOES THIS PROSPECTUS CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY SECURITIES IN ANY JURISDICTION TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE SUCH OFFER OR SOLICITATION.

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AVAILABLE INFORMATION

We have filed with the Securities and Exchange Commission a registration statement on Form S-4 (including the exhibits and schedules thereto) under the Securities Act and the rules and regulations thereunder, for the registration of the notes offered hereby. This prospectus is part of the registration statement. This prospectus does not contain all the information included in the registration statement because we have omitted parts of the registration statement as permitted by the Securities and Exchange Commission's rules and regulations. For further information about us and the notes, you should refer to the registration statement. Statements contained in this prospectus as to any contract, agreement or other document referred to are not necessarily complete. Where the contract or other document is an exhibit to the registration statement, each statement is qualified by the provisions of that exhibit.

You can inspect and copy all or any portion of the registration statements or any reports, statements or other information we file at the public reference facility maintained by the Securities and Exchange Commission at Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549, and at the SEC's regional offices at Seven World Trade Center, 13th Floor, New York, New York 10048 and 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. You may call the Securities and Exchange Commission at 1-800-SEC-0330 for further information about the operation of the public reference rooms. Copies of all or any portion of the registration statement can be obtained from the Public Reference Section of the Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. In addition, the registration statement is publicly available through the Securities and Exchange Commission's site on the Internet's World Wide Web, located at http://www.sec.gov.

In addition, for so long as any of the notes remain outstanding, we have agreed to make available to any prospective purchaser of the notes or beneficial owner of the notes in connection with any sale thereof the information required by Rule 144A(d)(4) under the Securities Act.

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SUMMARY

THE FOLLOWING SUMMARIZES INFORMATION IN OTHER SECTIONS OF THIS PROSPECTUS, INCLUDING OUR FINANCIAL STATEMENTS, THE NOTES TO THOSE FINANCIAL STATEMENTS AND THE OTHER FINANCIAL INFORMATION APPEARING ELSEWHERE IN THIS PROSPECTUS. YOU SHOULD READ THIS ENTIRE PROSPECTUS CAREFULLY. THE TERM "OLD NOTES" AS USED IN THIS PROSPECTUS REFERS TO OUR OUTSTANDING 10 3/8% SENIOR SUBORDINATED NOTES DUE 2011 THAT WE ISSUED ON APRIL 10, 2001 AND THAT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT. THE TERM "EXCHANGE NOTES" REFERS TO THE 10 3/8% SENIOR SUBORDINATED NOTES DUE 2011 OFFERED PURSUANT TO THIS PROSPECTUS. THE TERM "NOTES" REFERS TO THE OLD NOTES AND THE EXCHANGE NOTES COLLECTIVELY.

OUR BUSINESS

We are a leading national provider of outsourced diagnostic imaging services, with 91% of our 2000 revenues and 90% of our revenues for the first quarter of 2001 derived from magnetic resonance imaging, or MRI. We provide imaging and therapeutic services primarily to hospitals and other healthcare providers on a mobile, shared-service basis. Our mobile, shared-service systems are located in trailers which we move among our clients' locations. We also provide systems that are located full-time at particular hospitals and clinics. Our services normally include the use of our imaging or therapeutic systems, technologists to operate the systems, equipment maintenance and upgrades and management of day-to-day operations. We had 392 diagnostic imaging and therapeutic systems, including 325 MRI systems, and 1,218 clients in 43 states at March 31, 2001.

Our typical contract is a three-to-five year arrangement with a hospital or other healthcare provider, under which fees are payable to us regardless of reimbursement by health insurers or other third-party payors. Our clients contract with us to use our outsourced imaging services in order to:

- avoid the capital investment and financial risk associated with the purchase of their own systems;

- provide access to MRI and other services for their patients when the demand for these services does not justify the purchase of a system;

- make use of our ancillary services which include marketing support, education and training and billing assistance; and

- gain access to imaging services under our regulatory and licensing approvals when they do not have these approvals.

Our MRI systems are among the most advanced in the industry. Our advanced systems are able to perform high quality scans more rapidly and can be used for a wider variety of imaging applications than less advanced systems. We are able to upgrade most of our MRI systems through software and hardware enhancements, which we believe reduces the potential for technological obsolescence.

OUR INDUSTRY

MRI services constituted $6.7 billion of the approximately $66 billion diagnostic imaging industry in 1999. MRI's growth has been driven by its recognition as a cost-effective, noninvasive diagnostic tool, increasing physician acceptance and growth in the number of MRI applications. As a result, we believe MRI will continue to capture a larger portion of the diagnostic imaging market. The number of MRI scans grew at a compound annual rate of 10.5% from 1990 to 2000 and is projected to grow at approximately this rate through 2006.

OUR COMPETITIVE STRENGTHS

We believe we benefit from the following competitive strengths:

- our position as the largest national provider of outsourced MRI services;

- exclusive, long-term contracts with limited customer concentration;

- reduced reimbursement risk because we generate 90% of our revenues by billing hospitals and clinics rather than health insurers or other third-party payors;

- our ability to provide comprehensive outsourcing solutions; and

- our experienced executive management team.

OUR GROWTH STRATEGY

We intend to capitalize upon these competitive strengths and grow our business by:

- increasing the number of scans we perform for our existing clients;

- establishing new client relationships;

- improving efficiency by increasing the number of scans we perform each day with our existing MRI systems;

- offering new MRI applications;

- offering new imaging services; and

- pursuing selected strategic acquisitions.

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."

We are a Delaware corporation with our principal executive offices located at 1065 PacifiCenter Drive, Suite 200, Anaheim, CA 92806. Our telephone number at that location is (714) 688-7100.

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SUMMARY OF THE EXCHANGE OFFER

The Exchange Offer............ We are offering to exchange $1,000 principal amount of our exchange notes for each $1,000 principal amount of old notes. As of the date of this prospectus, $260 million in aggregate principal amount of old notes are outstanding.

We have registered the exchange notes under the Securities Act and they are substantially identical to the old notes, except fo the elimination of some transfer restrictions, registration rights and liquidated damages provisions relating to the old notes.

Accrued Interest on the Exchange Notes and the Old Notes....................... Interest on the exchange notes will accrue from the date of issuance of the old notes, which was on April 10, 2001. Holders whose old notes are accepted for exchange will be deemed to have waived the right to receive any interest accrued on the old notes.

No Minimum Condition.......... We are not conditioning the exchange offer on the tender of any minimum principal amount of old notes.

Expiration Date............... The exchange offer will expire at 5:00 p.m., New York City time, on , 2001, unless we decide to extend the exchange offer.

Withdrawal Rights............. You may withdraw your tender at any time prior to 5:00 p.m., New York City time, on the expiration date.

Conditions to the Exchange Offer....................... The exchange offer is subject to customary conditions, which we may waive. We currently anticipate that each of the conditions will be satisfied and that we will not need to waive any conditions. We reserve the right to terminate or amend the exchange offer at any time before the expiration date if any suc condition occurs. For additional information, see "The Exchange Offer--Certain Conditions to the Exchange Offer."

Procedures for Tendering Old Notes....................... If you are a holder of old notes who wishes to accept the exchange offer, you must:

complete, sign and date the accompanying letter of transmittal, or a facsimile of the letter of transmittal, and mail or otherwise deliver the letter of transmittal, together with your old notes, to the exchange agent at the address set forth under "The Exchange Offer--Exchange Agent;" or

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arrange for The Depository Trust Company to transmit certai required information, including an agent's message forming part of a book-entry transfer in which you agree to be boun

- by the terms of the letter of transmittal, to the exchange agent in connection with a book-entry transfer.

By tendering your old notes in either manner, you will be representing among other things, that:

- the exchange notes you receive pursuant to the exchange offer are being acquired in the ordinary course of your business;

- you are not participating, do not intend to participate, an have no arrangement or understanding with any person to participate, in the distribution of the exchange notes issued to you in the exchange offer; and

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- you are not an "affiliate" of ours.

Special Procedures for Beneficial Owners............ If you beneficially own old notes registered in the name of a broker, dealer, commercial bank, trust company or other nominee and you wish to tender your old notes in the exchange offer, you should contact the registered holder promptly and instruct it to tender on your behalf. If you wish to tender on your own behalf, you must, prior to completing and executing the letter of transmittal and delivering your old notes, either arrange to hav your old notes registered in your name or obtain a properly completed bond power from the registered holder. The transfer of registered ownership may take considerable time.

Guaranteed Delivery Procedures.................. If you wish to tender your old notes and time will not permit your required documents to reach the exchange agent by the expiration date, or the procedures for book-entry transfer canno be completed on time, you may tender your old notes according to the guaranteed delivery procedures described in "The Exchange Offer--Procedures for Tendering Old Notes."

Acceptance of Old Notes and Delivery of Exchange Notes... We will accept for exchange all old notes which are properly tendered in the exchange offer prior to 5:00 p.m., New York City time, on the expiration date. The exchange notes issued in the exchange offer will be delivered promptly following the expiration date. For additional information, see "The Exchange Offer--Acceptance of Old Notes for Exchange; Delivery of Exchang Notes."

Use of Proceeds............... We will not receive any proceeds from the issuance of exchange notes in the exchange offer. We will pay for our expenses incident to the exchange offer.

Federal Income Tax Consequences................ The exchange of exchange notes for old notes in the exchange

	offer will not be a taxable event for federal income tax purposes. For additional information, see "Material United State Income Tax Considerations."
Effect on Holders of Old Notes........................	As a result of this exchange offer, we will have fulfilled a covenant contained in the registration rights agreement dated as of April 10, 2001 among us and each of the initial purchasers named in the agreement and, accordingly, there will be no increase in the interest rate on the old notes. If you do not tender your old notes in the exchange offer: - you will continue to hold the old notes and will be entitle to all the rights and limitations applicable to the old notes under the indenture governing the notes, except for any rights under the registration rights agreement that terminate as a result of the completion of the exchange offer; and - you will not have any further registration or exchange rights and your old notes will continue to be subject to restrictions on transfer. Accordingly, the trading market for untendered old notes could be adversely affected.
Exchange Agent.................	The Bank of New York is serving as exchange agent in connection with the exchange offer.

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SUMMARY OF THE EXCHANGE NOTES

Securities Offered............	Up to $260,000,000 principal amount of 10 3/8% senior subordinated notes due 2011 which have been registered under the Securities Act.
Maturity Date..................	April 15, 2011.
Interest Payment Dates.........	April 15 and October 15, commencing October 15, 2001.
Optional Redemption............	On or after April 15, 2006, the exchange notes will be redeemable, in whole or in part, at the redemption prices set forth under the heading "Description of the Exchange Notes--Optional Redemption," together with accrued and unpaid interest, if any, to the date of redemption. In addition, at any time on or prior to April 15, 2004, we may redeem up to 40% of the original aggregate principal amount of the exchange notes with the net proceeds of one or more equity offerings, at a redemption price equal to 110.375% of the aggregate principal amount to be redeemed, together with accrued and unpaid interest if any, to the date of redemption; provided that at least 60% of the original aggregate principal amount of the exchange notes remains outstanding immediately after each redemption. See "Description of the Exchange Notes--Optional Redemption."
Change of Control.............	Upon the occurrence of a change of control, we will have the option, at any time prior to April 15, 2006, to redeem the

exchange notes, in whole but not in part, at a redemption price equal to 100% of the aggregate principal amount of the exchange notes plus the applicable premium, together with accrued and unpaid interest, if any, to the date of redemption. Upon the occurrence of a change of control, if we do not elect to redeem the exchange notes, we will be required to make an offer to purchase the exchange notes at a price equal to 101% of the aggregate principal amount of the exchange notes, together with accrued and unpaid interest, if any, to the date of repurchase. See "Description of the Exchange Notes--Repurchase at the Option of Holders--Change of Control."

Ranking....................... The exchange notes will be:

- unsecured senior subordinated obligations;
- subordinated in right of payment to all existing and future senior debt, including our bank debt;
- effectively subordinated to all obligations of our subsidiaries;
- equal in rank with any future senior subordinated debt; and
- senior to any future junior subordinated debt.

As of June 13, 2001, we had approximately $509 million of indebtedness senior to the notes. We have no material indebtedness of equivalent rank or junior to the notes. Of this amount, our subsidiaries had total liabilities of $14 million which are structurally senior to the exchange notes. See "Selected Consolidated Financial Data," "Risk Factors--Risks Related to Our Indebtedness," and "Description of the Exchange Notes--Subordination."

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Certain Covenants............. The indenture under which the notes will be issued contains covenants that will, subject to certain exceptions, limit, among other things, our and our restricted 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 to the notes. See "Description of the Exchange Notes--Certain Covenants."

Trustee....................... The Bank of New York.

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

SUMMARY CONSOLIDATED FINANCIAL INFORMATION

The following summary historical consolidated financial information with respect to each year in the three-year period ended December 31, 2000 is derived from our consolidated financial statements. The consolidated statement of operations data for the three months ended March 31, 2000 and 2001 and the consolidated balance sheet data as of March 31, 2000 and 2001 are derived from our unaudited consolidated financial statements. The summary historical consolidated financial information provided below should be read in conjunction with the consolidated financial statements and notes thereto included elsewhere in this prospectus.

	YEARS ENDED DECEMBER 31,		
	1998	1999	2000
		(DOLLARS IN THOU	
CONSOLIDATED STATEMENTS OF OPERATIONS DATA:			
Revenues..	$ 243,297	$ 318,106	$ 345,287
Costs and expenses:			
Operating expenses, excluding depreciation...............	111,875	143,238	151,722
Depreciation expense....................................	33,493	47,055	54,924
Selling, general and administrative expenses.............	24,446	31,097	38,338
Amortization expense, primarily goodwill.................	11,289	14,565	14,390
Termination and related costs............................	--	--	4,727
Recapitalization, merger integration, and regulatory costs...	2,818	52,581	4,369
Interest expense, net....................................	41,772	51,958	77,051
Total costs and expenses................................	225,693	340,494	345,521
Income (loss) before income taxes and extraordinary loss....	17,604	(22,388)	(234)
Provision for income taxes................................	8,736	3,297	1,969
Income (loss) before extraordinary loss....................	8,868	(25,685)	(2,203)
Extraordinary loss, net of taxes...........................	(2,271)	(17,766)	--
Net income (loss)...	$ 6,597	$ (43,451)	$ (2,203)
OTHER DATA:			
Adjusted EBITDA(1)..	$ 107,076	$ 143,771	$ 155,560
Adjusted EBITDA margin(2).................................	44.0%	45.2%	45.1%

Cash flows provided by (used in):			
Operating activities	46,855	38,197	92,044
Investing activities	(245,104)	(104,072)	(90,995)
Financing activities	189,077	67,596	7,118
Capital expenditures	72,321	95,914	101,554
Net debt to Adjusted EBITDA(1)(3)	4.8x	5.2x	4.8x
Adjusted EBITDA to interest expense, net(1)(4)	2.6x	2.8x	2.0x
Ratio of earnings to fixed charges(5)	1.4x	0.6x	1.0x
CONSOLIDATED BALANCE SHEET DATA (AT END OF PERIOD):			
Cash and cash equivalents	$ 3,083	$ 4,804	$ 12,971
Total assets	567,932	625,510	646,160
Long-term debt, including current maturities	518,423	751,849	758,989
Redeemable preferred stock	16,673	--	--
Stockholders' deficit	(43,327)	(201,899)	(203,809)

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(1) EBITDA represents earnings before interest expense, net, income taxes, depreciation and amortization expense. Adjusted EBITDA represents EBITDA adjusted for recapitalization costs, merger integration costs, regulatory costs, termination and related costs, stock-based compensation, and extraordinary items. EBITDA and adjusted EBITDA are not presentations made in accordance with generally accepted accounting principles. EBITDA and adjusted EBITDA should not be considered in isolation or as substitutes for net income, cash flows from operating activities and other income or cash flow statement data prepared in accordance with generally accepted accounting principles or as measures of profitability or liquidity. EBITDA and adjusted EBITDA are included in this offering memorandum to provide additional information with respect to our ability to satisfy our debt service, capital expenditure and working capital requirements and because certain covenants in our debt instruments are based on similar measures. While EBITDA and adjusted EBITDA are used as measures of operations and the ability to meet debt service requirements, they are not necessarily comparable to

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other similarly titled captions of other companies due to differences in methods of calculations. The calculations of EBITDA and adjusted EBITDA are shown below:

	YEARS ENDED DECEMBER 31,		
	1998	1999	2000
			(IN THOUSANDS
Net income (loss)	$ 6,597	$(43,451)	$ (2,203)
Depreciation expense	33,493	47,055	54,924
Amortization expense, primarily goodwill	11,289	14,565	14,390
Interest expense, net	41,772	51,958	77,051
Provision for income taxes	8,736	3,297	1,969
EBITDA	101,887	73,424	146,131
Termination and related costs(a)	--	--	4,727

Recapitalization, merger integration, and regulatory costs(b)	2,818	52,581	4,369
Stock based compensation(c)	100	--	333
Extraordinary loss, net of taxes	2,271	17,766	--
Adjusted EBITDA	$107,076	$143,771	$155,560

(a) Termination and related costs for the year ended December 31, 2000 represent $4,232 associated with termination costs and the cash-out of stock options for an executive officer who resigned due to health-related issues and $341 associated with the recruitment of his replacement.

(b) Recapitalization, merger integration and regulatory costs for the year ended December 31, 2000, represent $704 of professional fees paid in connection with the KKR acquisition, $570 of compensatory costs related to stock option buy-backs and severance payments resulting from change in control provisions triggered by the KKR acquisition, $154 related to additional severance for employees of SMT, $123 of integration costs to migrate acquired entities to a common systems platform for direct patient billing, and $850 for assessments and $2,122 for costs and related professional fees to settle regulatory matters associated with the direct patient billing process of one of our acquired entities. Recapitalization, merger integration and regulatory costs for the year ended December 31, 1999, represent $19,640 in professional fees paid in connection with the KKR acquisition, $17,082 related to the purchase of outstanding stock options in connection with the KKR acquisition, $6,003 in bonus payments paid in connection with the KKR acquisition, $1,088 in provisions to conform the accounting policies with respect to accounts receivable reserves, as well as employee vacation and sick pay reserves in connection with the SMT merger, $2,164 in employee severance costs in connection with the SMT merger, $3,075 in professional fees and other merger integration costs associated with the SMT merger and other acquired entities, and $3,529 for assessments to settle regulatory matters associated with the direct patient billing process of one of our acquired entities. Recapitalization, merger integration and regulatory costs for the year ended December 31, 1998, represents $1,846 in special non-recurring bonuses paid in connection with the MTI acquisition, $722 of professional fees associated with accounting and billing systems conversions of acquired companies, and a $250 provision for doubtful accounts conforming accounting adjustment made in connection with the American Shared acquisition.

(c) Stock-based compensation of $333 for the year ended December 31, 2000, represents $55 for options issued to certain employees at exercise prices below the fair value of our common stock, $68 for shares of Phantom stock issued to four non-employee directors below fair market value, and $210 for common stock issued to one of our executive officers at below fair market value. Stock-based compensation of $100 for the year ended December 31, 1998, represents options issued to certain employees at exercise prices below the fair value of our common stock.

(2) Adjusted EBITDA margin is calculated by dividing adjusted EBITDA by revenues.

(3) For purposes of calculating net debt to adjusted EBITDA, net debt is defined as long-term debt, including current maturities, less cash and cash equivalents.

(4) For purposes of calculating adjusted EBITDA to interest expense, net, interest expense, net, is defined as interest expense net of interest income. Interest expense includes amortization of debt issuance costs.

(5) For the purpose of calculating the ratio of earnings to fixed charges, earnings are defined as income from continuing operations before income taxes and extraordinary items, plus minority interest expense, plus distributions from equity investees, plus fixed charges, less income from equity investments. Fixed charges are the sum of interest on all indebtedness, amortization of debt issuance costs, and estimated interest on rental expense. Earnings were inadequate to cover fixed charges by $21.4 million for the year ended December 31, 1999.

RISK FACTORS

AN INVESTMENT IN OUR NOTES INVOLVES SIGNIFICANT RISKS. YOU SHOULD CAREFULLY CONSIDER THE FOLLOWING RISKS DESCRIBED BELOW AND THE OTHER INFORMATION IN THIS PROSPECTUS INCLUDING OUR FINANCIAL STATEMENTS AND RELATED NOTES BEFORE MAKING AN INVESTMENT IN OUR NOTES.

RISKS RELATED TO OUR INDEBTEDNESS

OUR SUBSTANTIAL INDEBTEDNESS COULD RESTRICT OUR OPERATIONS AND MAKE US MORE VULNERABLE TO ADVERSE ECONOMIC CONDITIONS.

We are a highly leveraged company and our liabilities exceed our assets by a substantial amount. As of June 13, 2001, we had $769.2 million of outstanding debt, excluding letters of credit and guarantees, including $260.0 million of the notes. Of our total debt, $491.0 million consisted of borrowings under our credit facility, $260.0 million consisted of the notes, and $18.2 million consisted of equipment debt and capitalized lease obligations. In addition, for the quarter ended March 31, 2001, after giving pro forma effect to the offering of the old notes, our ratio of earnings to fixed charges would have been 1.1x.

Our substantial indebtedness could have important consequences for the holders of the notes. For example, it could:

- make it more difficult for us to satisfy our obligations with respect to the notes;

- 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 for other general corporate purposes;

- increase our vulnerability to economic downturns and competitive pressures in our industry;

- increase our vulnerability to interest rate fluctuations because a substantial amount of our debt is at variable interest rates; as of June 13, 2001, $491.0 million of our debt would have been at variable interest rates;

- 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.

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 indenture governing the notes will permit us or our subsidiaries to incur additional indebtedness, subject to certain restrictions. Further, the indenture allows for the incurrence of indebtedness by our subsidiaries, all of which would be structurally senior to the notes. In addition, as of June 13, 2001, our revolving credit facility permits additional borrowings of up to approximately $125 million subject to the covenants contained in the credit facility, and all of those borrowings would be senior to the notes. If new debt is added to our and our subsidiaries' current debt levels, the risks discussed above could intensify.

WE MAY BE UNABLE TO GENERATE OR BORROW SUFFICIENT CASH TO MAKE PAYMENTS ON OUR INDEBTEDNESS, INCLUDING THE NOTES, OR TO REFINANCE OUR INDEBTEDNESS, INCLUDING THE NOTES, ON ACCEPTABLE TERMS.

Our ability to make payments on our indebtedness will depend on our ability to generate cash flow in the future which, to a certain extent, is subject to general economic, financial, competitive,

legislative, regulatory and other factors that are beyond our control. In addition, future borrowings may not be available to us under our credit facility in an amount sufficient to enable us to pay our indebtedness, including the notes, or to fund our other cash needs. We may need to refinance all or a portion of our indebtedness, including the notes, on or before maturity. We may not be able to refinance any of our indebtedness, including our credit facility and the notes, on commercially reasonable terms or at all. 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 CREDIT FACILITY, THE INDENTURE AND INSTRUMENTS GOVERNING OUR OTHER INDEBTEDNESS.

The indenture will, and our credit facility does, 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; or

- 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 credit facility or the notes is accelerated, we may not have sufficient assets to repay amounts due under the credit facility, the notes or on 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.

RISKS RELATED TO GOVERNMENT REGULATION OF OUR BUSINESS

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 our clients subject to extensive regulation by both the federal government and the states in which we conduct our business.

If our operations are found to be in violation of any of the laws and regulations to which we or our clients are subject, we may be subject to the applicable penalty associated with the violation, 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 risk 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 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. For a more detailed discussion of the various state and federal regulations to which we are subject see "Business--Regulation."

AN UNEXPECTED ADVERSE OUTCOME FROM ANY OF OUR ONGOING ADMINISTRATIVE PROCEEDINGS COULD RESULT IN DAMAGES, FINES OR THE CURTAILMENT OF OUR OPERATIONS.

We currently have the following administrative proceedings pending:

- a review by the National Heritage Insurance Company, our Medicare Part B contractor, of our Medicare billing claims in Massachusetts; and

- an action by MassPRO stemming from an audit of Medicaid claims submitted by one of our wholly-owned subsidiaries.

Each of the proceedings listed above is described in greater detail in "Business--Legal and Administrative Proceedings." We have accrued $4,350,000 for probable settlement of these proceedings. While actual results could vary from this estimate, we believe that the resolution of any deficient billing process will not have a material adverse effect on our business. If this assessment is incorrect, however, then additional amounts required to settle these issues may have an adverse effect on our financial condition and our operations.

HEALTHCARE REFORM LEGISLATION COULD LIMIT THE PRICES WE CAN CHARGE FOR OUR SERVICES, WHICH WOULD REDUCE OUR REVENUES AND HARM OUR OPERATING RESULTS.

In addition to extensive existing government healthcare regulation, there are numerous initiatives at the federal and state levels for comprehensive reforms affecting the payment for and availability of healthcare services, including a number of proposals that would significantly limit reimbursement under the Medicare and Medicaid Programs. Limitations on reimbursement amounts and other cost containment pressures have in the past resulted in a decrease in the revenue we receive for each scan we perform. It is not clear at this time what proposals, if any, will be adopted or, if adopted, what effect these proposals would have on our business. Aspects of certain of these healthcare proposals, such as reductions in the Medicare and Medicaid Programs, containment of healthcare costs on an interim basis by means that could include a short-term freeze on prices charged by healthcare providers, and permitting greater state flexibility in the administration of Medicaid, could limit the demand for our services or affect the revenue per procedure that we can collect which would harm our business and results of operations.

THE APPLICATION OR REPEAL OF STATE CERTIFICATE OF NEED REGULATIONS COULD HARM OUR BUSINESS AND FINANCIAL RESULTS.

Some states require a certificate of need or similar regulatory approval prior to the acquisition of high-cost capital items including diagnostic imaging systems or provision of diagnostic imaging services by us or our clients. Seventeen of the 43 states in which we operate require a certificate of need and more states may adopt similar licensure frameworks in the future. In many cases, a limited number of these certificates are available in a given state. If we are unable to obtain the applicable certificate or approval or additional certificates or approvals necessary to expand our operations, these regulations may limit or preclude our operations in the relevant jurisdictions.

Conversely, states in which we have obtained a certificate of need may repeal existing certificate of need regulations or liberalize exemptions from the regulations. For example, Pennsylvania, Nebraska, New York, Ohio and Tennessee have liberalized exemptions from certificate of need programs. The repeal of certificate of need regulations in states in which we have obtained a certificate of need or a certificate of need exemption would lower barriers to entry for competition in those states and could adversely affect 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.

All of the states in which we operate require that the imaging technologists that operate our computed tomography, single photon emission computed tomography, and positron emission tomography systems be licensed or certified. Also, each of our retail sites must continue to meet various requirements in order to receive payments from the Medicare Program. In addition, we are currently accredited by the Joint Commission on Accreditation of Healthcare Organizations, an independent, non-profit organization that accredits various types of healthcare providers such as hospitals, nursing homes and providers of diagnostic imaging services. In the healthcare industry, various types of organizations are accredited to meet certain Medicare certification requirements, expedite third-party payment, and fulfill state licensure requirements. Some managed care providers prefer to contract with accredited organizations. Any lapse in our licenses, certifications or accreditations, or those of our technologists, or the failure of any of our retail sites to satisfy the necessary requirements under Medicare could adversely affect our operations and financial results.

RISKS RELATED TO OUR BUSINESS

CHANGES IN THE RATES OR METHODS OF THIRD-PARTY REIMBURSEMENTS FOR DIAGNOSTIC IMAGING AND THERAPEUTIC 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 a small portion 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 negative impact on our revenues. Moreover, our healthcare provider clients on whom we depend for the majority of our revenues generally rely on reimbursement from third-party payors. In the past, initiatives have been proposed which, if implemented, would have had the effect of substantially decreasing reimbursement rates for diagnostic imaging services. Similar initiatives enacted in the future may have an adverse impact on our financial condition and our operations. Any change in the rates of or conditions for reimbursement could substantially reduce the number of procedures for which we or these healthcare providers can obtain reimbursement or the amounts reimbursed to us or our clients for services provided by us. Because unfavorable reimbursement policies have constricted and may continue to constrict the profit margins of the hospitals and clinics we bill directly, we have and may continue to need to lower our fees to retain existing clients and attract new ones. These reductions could have a significant adverse effect on our revenues and financial results by decreasing demand for our services or creating downward pricing pressure.

Recently promulgated federal regulations affect the ability of a Medicare provider such as a hospital to include a service or facility as provider-based, as opposed to treating the service as if it were offered offsite from the hospital, for purposes of Medicare reimbursement. Historically, provider-based status has allowed a provider to obtain more favorable Medicare reimbursement for services like the ones we provide. While the Medicare, Medicaid and SCHIP Benefits and Improvement Act of 2000 offers some relief for facilities recognized as provider-based on October 1, 2000, under these new regulations, some of our clients may have difficulty qualifying our services for provider-based status. If a client cannot obtain provider-based status for our services, then the provider might decide not to contract with us, which would result in a decline in our operating results.

OUR REVENUES MAY FLUCTUATE OR BE UNPREDICTABLE AND THIS MAY HARM OUR FINANCIAL RESULTS.

The amount and timing of revenues that we may derive from our business will fluctuate based on:

- variations in the rate at which clients renew their contracts;

- the extent to which our mobile shared-service clients become full-time clients;

- changes in the number of days of service we can offer with respect to a given diagnostic imaging or therapeutic system due to equipment malfunctions or the seasonal factors discussed below; and

- the mix of wholesale and retail billing for our services.

In addition, we experience seasonality in the sale of our services. For example, our sales typically decline from our third fiscal quarter to our fourth fiscal quarter. First and fourth quarter revenues are typically lower than those from the second and third quarters. First quarter revenue is affected primarily by fewer calendar days and inclement weather, the results of which are fewer patient scans during the period. Fourth quarter revenue is affected primarily by holiday and client and patient vacation schedules and inclement weather, the results of which are fewer patient scans during the period. We may not be able to reduce our expenses, including our debt service obligations, quickly enough to respond to these declines in revenue, which would make our business difficult to operate and would harm our financial results. In addition, we may be unable to adjust our expenditures if revenues in a particular period fail to meet our expectations, which would harm our operating results for that period and could affect our ability to pay interest on the notes.

WE MAY EXPERIENCE COMPETITION FROM OTHER MEDICAL DIAGNOSTIC COMPANIES AND THIS COMPETITION COULD ADVERSELY AFFECT OUR REVENUES AND OUR BUSINESS.

The market for diagnostic imaging services and systems is competitive. Our major competitors include Insight Health Services Corp., Medical Resources, Inc., Shared Medical Services, Kings Medical Company Inc., Otter Tail Power Company, U.S. Diagnostic Inc., and Syncor International Corporation. In addition to direct competition from other mobile providers, we compete with independent imaging centers and healthcare providers that have their own diagnostic imaging systems as well as with equipment manufacturers that sell or lease imaging systems to healthcare providers for full-time installation. Some of our direct competitors which provide diagnostic imaging services 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 clients have in the past elected to provide imaging services to their patients directly rather than renewing their contacts with us. Finally, we face competition from providers of competing technologies such as ultrasound and may face competition from providers of new technologies in the future. If we are unable to successfully compete, our client base would decline and our business and financial condition would be harmed.

MANAGED CARE ORGANIZATIONS MAY PREVENT HEALTHCARE PROVIDERS FROM USING OUR SERVICES WHICH WOULD CAUSE US TO LOSE CURRENT AND PROSPECTIVE CLIENTS.

Healthcare providers participating as providers under managed care plans may be required to refer diagnostic imaging tests to specific imaging service providers depending on the plan in which each covered patient is enrolled. These requirements currently inhibit healthcare providers from using our diagnostic imaging services in some cases. The proliferation of managed care may prevent an increasing number of healthcare providers from using our services in the future which would cause our revenues to decline.

TECHNOLOGICAL CHANGE IN OUR INDUSTRY COULD REDUCE THE DEMAND FOR OUR SERVICES AND REQUIRE US TO INCUR SIGNIFICANT COSTS TO UPGRADE OUR EQUIPMENT.

Technological change in the MRI industry has been gradual since the last major technological advancements were made in 1994. However, technological changes in the MRI industry may accelerate in the future. The effect of technological change could significantly impact our business. The development of new scanning technology or new diagnostic applications for existing technology may require us to adapt our existing technology or acquire new or technologically improved systems in order to successfully compete. In the future, however, we may not have the financial resources to do so, particularly given our indebtedness. In addition, advancing technology may enable hospitals, physicians or other diagnostic service providers to perform tests without the assistance of diagnostic service providers such as ourselves. The development of new technologies or refinements of existing ones might make our existing systems technologically or economically obsolete, or cause a reduction in the value of, or reduce the need for, our systems.

WE MAY BE UNABLE TO EFFECTIVELY MAINTAIN OUR IMAGING AND THERAPEUTIC SYSTEMS OR GENERATE REVENUE WHEN OUR SYSTEMS ARE NOT WORKING.

Timely, effective service is essential to maintaining our reputation and high utilization rates on our imaging systems. Repairs to one of our systems can take up to two weeks and result in a loss of revenue. Our warranties and maintenance contracts do not fully compensate us for loss of revenue when our systems are not working. The principal components of our operating costs include depreciation, salaries paid to technologists and drivers, annual system maintenance costs, insurance and transportation costs. Because the majority of these expenses is fixed, a reduction in the number of scans performed due to out-of-service equipment will result in lower revenues and margins. Repairs of our equipment are performed for us by the equipment manufacturers. These manufacturers may not be able to perform repairs or supply needed parts in a timely manner. Thus, if we experience greater than anticipated system malfunctions or if we are unable to promptly obtain the service necessary to keep our systems functioning effectively, our revenues could decline and our ability to provide services would be harmed.

WE MAY BE UNABLE TO RENEW OR MAINTAIN OUR CLIENT CONTRACTS WHICH WOULD HARM OUR BUSINESS AND FINANCIAL RESULTS.

Upon expiration of our clients' contracts, we are subject to the risk that clients will cease using our imaging services and purchase or lease their own imaging systems or use our competitors' imaging systems. Thirty-three percent of our MRI contracts will expire in 2001 and an additional twenty-four percent will expire in 2002. If these contracts are not renewed, it could result in a significant negative impact on our business. In particular, renewal rates for contracts inherited from our acquired companies have historically been lower than those for our own contracts. For example, in 2000, the retention rate on contracts originated by us was approximately 87% compared with an average retention rate of approximately 83% for contracts originated by companies we acquired in the last three years. It is not always possible to immediately obtain replacement clients, and historically many replacement clients have been smaller facilities which have a lower number of scans than lost clients.

WE MAY BE SUBJECT TO PROFESSIONAL LIABILITY RISKS WHICH COULD BE COSTLY AND NEGATIVELY IMPACT OUR BUSINESS AND FINANCIAL RESULTS.

We may be subject to professional liability claims. Although there currently are no known hazards associated with MRI or our other scanning technologies when used properly, hazards may be discovered in the future. Furthermore, there is a risk of harm to a patient during an MRI if the patient has certain types of metal implants or cardiac pacemakers within his or her body. Patients are carefully

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screened to safeguard against this risk, but screening may nevertheless fail to identify the hazard. To protect against possible professional liability, we maintain professional liability insurance. However, if we are unable to maintain insurance in the future at an acceptable cost or at all or if our insurance does not fully cover us, and a successful claim was made against us, we could be exposed. Any claim made against us not fully covered by insurance could be costly to defend against, result in a substantial damage award against us and divert the attention of our management from our operations, which could have an adverse effect on our financial performance.

LOSS OF KEY EXECUTIVES AND FAILURE TO ATTRACT QUALIFIED MANAGERS, TECHNOLOGISTS AND SALES PERSONS COULD LIMIT OUR GROWTH AND NEGATIVELY IMPACT OUR OPERATIONS.

We depend upon our management team to a substantial extent. In 2000, we added 216 employees. As we grow, we will increasingly require field managers and sales persons with experience in our industry and skilled technologists to operate our diagnostic equipment. It is impossible to predict the availability of qualified field managers, sales persons and technologists or the compensation levels that will be required to hire them. In particular, there is a very high demand for qualified technologists who are necessary to operate our systems. We may not be able to hire and retain a sufficient number of technologists, and we may be required to pay bonuses and higher salaries to our technologists, which would increase our expenses. The loss of the services of any member of our senior management or our inability to hire qualified field managers, sales persons and skilled technologists at economically reasonable compensation levels could adversely affect our ability to operate and grow our business.

OUR POSITRON EMISSION TOMOGRAPHY, OR PET, SERVICE AND SOME OF OUR OTHER IMAGING SERVICES REQUIRE THE USE OF RADIOACTIVE MATERIALS, WHICH COULD SUBJECT US TO REGULATION, RELATED COSTS AND DELAYS AND POTENTIAL LIABILITIES FOR INJURIES OR VIOLATIONS OF ENVIRONMENTAL, HEALTH AND SAFETY LAWS.

Our PET service and some of our other imaging and therapeutic services require radioactive materials. While this radioactive material has a short half-life, meaning it quickly breaks down into inert, or non-radioactive substances, storage, use and disposal of these materials presents 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 and waste products. Although we believe that our safety procedures for storing, handling and disposing of these hazardous materials comply with the standards prescribed by law and regulation, we cannot completely eliminate the risk of accidental contamination or injury from those hazardous materials. In the event of an accident, we could be held liable for any damages that result, and any liability could exceed the limits or fall outside the coverage of our insurance. We may not be able to maintain insurance on acceptable terms, or at all. We could incur significant costs and the diversion of our management's attention in order to comply with current or future environmental, health and safety laws and regulations.

WE MAY NOT BE ABLE TO ACHIEVE THE EXPECTED BENEFITS FROM ANY PAST OR FUTURE ACQUISITIONS WHICH WOULD ADVERSELY AFFECT OUR FINANCIAL CONDITION AND RESULTS.

We have historically relied on acquisitions as a method of expanding our business. In the past five years we have, directly or indirectly though our subsidiaries, completed seven significant acquisitions. In addition, although we have not presently identified any potential future acquisition candidates, we will consider future acquisitions as opportunities arise. If we do not successfully integrate acquisitions, we may not realize anticipated operating advantages and cost savings. The integration of companies that have previously operated separately involves a number of risks, including:

- demands on management related to the increase in our size after an acquisition;

- the diversion of our management's attention from the management of daily operations to the integration of operations;

- difficulties in the assimilation and retention of employees;

- potential adverse effects on operating results; and

- challenges in retaining clients.

With regard to the last item noted above, our client contract renewal rates for contracts inherited from our acquired companies have historically been lower than those for our own contracts. We may not be able to maintain the levels of operating efficiency acquired companies will have achieved or might achieve separately. Successful integration of each of their operations will depend upon our ability to manage those operations and to eliminate redundant and excess costs. Because of difficulties in combining operations, we may not be able to achieve the cost savings and other size related benefits that we hoped to achieve after these acquisitions which would harm our financial condition and results.

RISKS RELATED TO THE NOTES

HOLDERS OF SENIOR INDEBTEDNESS WILL BE PAID BEFORE HOLDERS OF THE NOTES ARE PAID.

The notes rank junior behind all of our existing indebtedness and all of our future indebtedness unless that indebtedness expressly provides that it ranks equal with, or is subordinate in right of payment to, the notes. As a result, upon any distribution to our creditors in a bankruptcy, liquidation or reorganization or similar proceeding relating to us or our property, the holders of our senior debt will be entitled to be paid in full in cash before any payment may be made with respect to these notes. In addition, all payments on the notes will be blocked in the event of a payment default on senior debt and may be blocked for up to 179 of 365 consecutive days in the event of certain non-payment defaults on senior debt.

In the event of a bankruptcy, liquidation or reorganization or similar proceeding relating to us, holders of the notes and all other holders of our subordinated indebtedness will participate in the assets remaining after we have paid all of our senior debt. However, because the indenture requires that amounts otherwise payable to holders of the notes in a bankruptcy or similar proceeding be paid to holders of senior debt first, holders of the notes may receive less, ratably, than holders of senior debt in any bankruptcy proceeding. In any of these cases, we may not have sufficient funds to pay all of our creditors. If no assets remain after payment to holders of senior debt, you will lose all of your investment in the notes.

Assuming we had completed the offering of the old notes on March 31, 2001, the notes would have been subordinated to $523 million of senior debt, our debt and other liabilities would have exceeded our assets by $205 million, and approximately $113 million would have been available for borrowing as additional senior debt under our revolving credit facility. We will be permitted to borrow substantial additional indebtedness, including senior debt, in the future under the terms of the credit facility and the indenture governing the notes.

WE HAVE RESTRICTED ACCESS TO THE CASH FLOWS AND ASSETS OF OUR SUBSIDIARIES WHICH MAY PREVENT US FROM MAKING PRINCIPAL AND INTEREST PAYMENTS ON THE NOTES.

Although a substantial portion of our business is conducted through our subsidiaries, none of our subsidiaries will have any obligation, contingent or otherwise, to make any funds available to us for payment of the principal of, and the interest on, the notes. Accordingly, our ability to pay the principal of, and the interest on, the notes is dependent upon the earnings of our subsidiaries and the distribution of funds from our subsidiaries. Furthermore, our subsidiaries will be permitted under the terms of the indenture to incur certain additional indebtedness that may severely restrict or prohibit the making of distributions, the payment of dividends or the making of loans by these subsidiaries to us.

There can be no assurance that our operations, independent of our subsidiaries, will generate sufficient cash flow to support payment of principal of, and interest on, the notes, or that dividends, distributions or loans will be available from our subsidiaries to fund these payments.

THE NOTES WILL BE STRUCTURALLY SUBORDINATED TO THE DEBT OF OUR SUBSIDIARIES.

None of our subsidiaries has guaranteed our obligations to make payments on the notes. In the event of a bankruptcy, liquidation or reorganization of any of our subsidiaries, their creditors will generally be entitled to payment of their claims from their assets before any assets are made available for a distribution to us for any purpose, including payments on the notes. As a result, the notes will be structurally subordinated to the debt of our subsidiaries, which totaled $16 million outstanding as of March 31, 2001. Also in the event of a bankruptcy, liquidation or reorganization of any of our subsidiaries, we and our creditors, including the holders of the notes, will have no right to proceed against the assets of our subsidiaries or to cause the liquidation or bankruptcy of these subsidiaries under bankruptcy laws.

WE MAY NOT BE ABLE TO REPURCHASE NOTES UPON A CHANGE OF CONTROL, WHICH WOULD BE AN EVENT OF DEFAULT UNDER THE INDENTURE.

Upon the occurrence of specific kinds of change of control events, we will be required to offer to repurchase all of the outstanding notes. The terms of the notes may not protect you if we undergo a highly leveraged transaction, reorganization, restructuring, merger or similar transaction that may adversely affect you unless the transaction is included in the definition of a change of control. Our credit facility restricts us from repurchasing the notes without the approval of the lenders. In addition, it is possible that we will not have sufficient funds at the time of the change of control to make the required repurchase of notes or that other restrictions in our credit facility and the notes will not allow these repurchases. This could constitute an event of default under the credit facility, entitling the lenders to, among other things, cause all indebtedness under the credit facility to become due and payable, and proceed against their collateral. Our failure to repurchase the notes would constitute an event of default under the indenture which would in turn result in an event of default under our credit agreement, in which case the lenders under our credit facility could cause all indebtedness under the credit facility to become due and payable.

FEDERAL BANKRUPTCY LAWS AND STATE FRAUDULENT TRANSFER LAWS COULD ALLOW A FEDERAL OR STATE COURT TO LIMIT PAYMENTS TO HOLDERS OF THE NOTES OR FURTHER SUBORDINATE OUR OBLIGATIONS TO HOLDERS OF THE NOTES.

Under applicable provisions of the United States Bankruptcy Code or comparable provisions of state fraudulent transfer or conveyance law, a federal or state court could significantly limit our obligations to the holders of the notes if the court determines we did either of the following when we issued the notes:

- incurred the indebtedness associated with the notes to hinder, delay or defraud our creditors; or

- received less than a reasonably equivalent value or fair consideration for the notes and any of the following applied:

  - we were insolvent at the time of incurring the indebtedness associated with the notes,

- we were rendered insolvent by the incurrence of the notes indebtedness,

- we were engaged in a business or transaction in which our remaining assets constituted unreasonably small capital to carry on our business, or

- we intended to incur debts beyond our ability to pay our debts as they matured.

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If the court determined that the circumstances discussed above were present, then the court could void, in whole or in part, our obligations to the holders of the notes or subordinate our obligations to these holders to other of our existing or future indebtedness.

WE ARE CONTROLLED BY A SINGLE STOCKHOLDER WHICH WILL BE ABLE TO EXERT SIGNIFICANT INFLUENCE OVER MATTERS REQUIRING STOCKHOLDER APPROVAL, INCLUDING CHANGE OF CONTROL TRANSACTIONS.

An affiliate of Kohlberg Kravis Roberts & Co., L.P., or KKR, owns approximately 92% of our common equity. Accordingly, the KKR affiliate controls us and has the power to elect all of our directors, appoint new management and approve any action requiring the approval of the holders of shares of our common stock, including adopting amendments to our certificate of incorporation and approving mergers, consolidations or sales of all or substantially all of our assets. This concentration of ownership will allow KKR to approve a change of control transaction, which would require us to repurchase all of the notes. The interests of KKR may conflict with the interests of the holders of the notes.

AN ACTIVE TRADING MARKET MAY NOT DEVELOP FOR THE EXCHANGE NOTES.

We are offering the exchange notes to the holders of the old notes. The old notes were sold in April 2001 to a small number of institutional investors and are eligible for trading in the Private Offerings, Resale and Trading through Automatic Linkages (PORTAL) Market. To the extent that old notes are tendered and accepted in the exchange offer, the trading market for untendered and tendered but unaccepted old notes will be adversely affected. We cannot assure you that this market will provide liquidity for you if you want to sell your old notes.

We do not intend to apply for a listing of the exchange notes on a securities exchange or on any automated dealer quotation system. The exchange notes are new securities for which there is currently no market. We cannot assure you as to the liquidity of markets that may develop for the exchange notes, your ability to sell the exchange notes or the price at which you would be able to sell the exchange notes. If such markets were to exist, the exchange notes could trade at prices that may be lower than their principal amount or purchase price depending on many factors, including prevailing interest rates and the markets for similar securities. The initial purchasers of the old notes have advised us that they currently intend to make a market with respect to the exchange notes. However, they are not obligated to do so, and any market making activities may be discontinued at any time without notice. In addition, such market making activity may be limited during the pendency of the exchange offer.

The liquidity of, and trading market for, the exchange notes also may be adversely affected by changes in the market for high yield securities and by changes in our financial performance or prospects or in the prospects for companies in our industry generally.

As a result, you cannot be sure that an active trading market will develop for the exchange notes.

FORWARD LOOKING STATEMENTS

We have made statements under the captions "Summary," "Risk Factors," "Use of Proceeds," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business" and elsewhere in this prospectus 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 which 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;

- our ability to incur more indebtedness;

- the effect of operating and financial restrictions in our debt agreements;

- our estimates regarding our capital requirements;

- intense levels of competition in the diagnostic imaging services and imaging systems industry;

- changes in healthcare regulation, including changes in Medicare and Medicaid reimbursement policies, adverse to our services;

- our ability to keep pace with technological developments within our industry;

- the growth in the market for MRI and other services;

- our ability to successfully integrate any future acquisitions; and

- other factors discussed under "Risk Factors."

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 their data.

RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth our ratio of earnings to fixed charges:

	YEARS ENDED DECEMBER 31,				
	1996	1997	1998	1999	2000
Ratio of earnings to fixed charges..........	2.0x	0.6x	1.4x	0.6x	1.0x

Earnings were inadequate to cover fixed charges by $4.2 million and $21.4 million for the years ended December 31, 1997 and 1999, respectively.

For the purpose of computing the ratio of earnings to fixed charges, earnings are defined as:

- income from continuing operations before income taxes and extraordinary items;

- plus minority interest expense;

- plus distributions from equity investees;

- plus fixed charges;

- less income from equity investments.

Fixed charges are defined as the sum of the following:

- interest on all indebtedness;

- amortization of debt issuance costs; and

- estimated interest on rental expense.

USE OF PROCEEDS

We will not receive any proceeds from the exchange of the exchange notes for the old notes pursuant to the exchange offer.

The aggregate proceeds from the offering of the old notes were used to repay our senior subordinated credit facility, under which we had $260 million of indebtedness outstanding, which otherwise would have matured on November 2, 2009 and which bore interest at a rate of 10.377% per annum at repayment. We borrowed against our credit facility to pay initial purchaser discounts, commissions and estimated expenses of the old notes.

CAPITALIZATION

You should read this table together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements and the related notes included elsewhere in this prospectus. The following table describes our capitalization as of March 31, 2001:

- on an actual basis; and

- on an as adjusted basis to give effect to the offering of the old notes and the borrowings under our credit facility made to pay the initial purchasers' discounts and commissions and offering expenses incurred in connection with the offering of the old notes.

	MARCH 31, 2001,	
	ACTUAL	AS ADJUSTED FOR THE OFFERING OF THE OLD NOTES
	(IN THOUSANDS, EXCEPT SHARE DATA)	
Cash and cash equivalents	$ 9,634	$ 9,634
Long-term debt, including current portion:		
Term loan facility under our credit agreement	$ 466,000	$ 466,000
Senior subordinated credit facility	260,000	--
Revolving loan facility under our credit agreement	28,000	37,000
Equipment loans	20,124	20,124
10 3/8% senior subordinated notes due 2011	--	260,000
Total long-term debt	774,124	783,124
Stockholders' deficit:		
Common stock, $0.01 par value: 10,000,000 shares authorized, 3,806,836 shares issued and outstanding, actual and as adjusted	38	38
Additional paid-in deficit	(137,103)	(137,103)
Note receivable from officer	(300)	(300)
Accumulated deficit	(65,078)	(67,318)
Total stockholders' deficit	(202,443)	(204,683)
Total capitalization	$ 571,681	$ 578,441

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SELECTED CONSOLIDATED FINANCIAL DATA

The selected financial data shown below for, and as of the end of, each of the years in the five-year period ended December 31, 2000 and for the three months ended March 31, 2000 and 2001 have been derived from our financial statements. The income statement data for the years ended December 31, 1998, 1999 and 2000 and the balance sheet data at December 31, 1999 and 2000 have been derived from financial statements, which have been audited and which are included in this prospectus. The income statement data for the years ended December 31, 1996 and 1997 and the balance sheet data at December 31, 1996, 1997 and 1998 have been derived from our audited financial statements, which are not included in this prospectus. The income statement data for the three months ended March 31, 2000 and 2001 and the balance sheet data at March 31, 2001 have been derived from our unaudited financial statements which are included in this prospectus. The balance sheet data at March 31, 2000 has been derived from our unaudited financial statements which are not included in this prospectus. The summary financial data should be read in conjunction with "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes included elsewhere in this prospectus.

	YEARS ENDED DECEMBER 31,				
	1996	1997	1998	1999	200
			(DOLLARS IN THOUSANDS)		
CONSOLIDATED STATEMENTS OF OPERATIONS DATA:					
Revenues	$ 68,482	$ 86,474	$ 243,297	$ 318,106	$ 345
Costs and expenses:					
Operating expenses, excluding depreciation	32,344	38,997	111,875	143,238	151
Depreciation expense	12,737	15,993	33,493	47,055	54
Selling, general and administrative expenses	8,130	8,857	24,446	31,097	38
Amortization expense, primarily goodwill	1,952	2,426	11,289	14,565	14
Termination and related costs	--	--	--	--	4
Recapitalization, merger integration, and regulatory costs	--	16,350	2,818	52,581	4
Interest expense, net	5,758	7,808	41,772	51,958	77
Total costs and expenses	60,921	90,431	225,693	340,494	345
Income (loss) before income taxes and extraordinary gain (loss)	7,561	(3,957)	17,604	(22,388)	
Provision for income taxes	1,060	1,700	8,736	3,297	1
Income (loss) before extraordinary gain (loss)	6,501	(5,657)	8,868	(25,685)	(2
Extraordinary gain (loss), net of taxes	6,300	1,849	(2,271)	(17,766)	
Net income (loss)	$ 12,801	$ (3,808)	$ 6,597	$ (43,451)	$ (2
CONSOLIDATED BALANCE SHEET DATA (AT END OF PERIOD):					
Cash and cash equivalents	$ 10,867	$ 12,255	$ 3,083	$ 4,804	$ 12
Total assets	128,510	284,815	567,932	625,510	646
Long-term debt, including current maturities	89,025	290,270	518,423	751,849	758
Redeemable preferred stock	4,694	14,487	16,673	--	
Stockholders' equity (deficit)	16,360	(47,904)	(43,327)	(201,899)	(203
OTHER DATA:					
Adjusted EBITDA(1)	$ 28,008	$ 38,620	$ 107,076	$ 143,771	$ 155
Adjusted EBITDA margin(2)	40.9%	44.7%	44.0%	45.2%	
Cash flows provided by (used in):					
Operating activities	21,731	12,864	46,855	38,197	92
Investing activities	(27,936)	(56,963)	(245,104)	(104,072)	(90
Financing activities	5,944	45,487	189,077	67,596	7
Capital expenditures	26,510	45,122	72,321	95,914	101
Net debt to adjusted EBITDA(1)(3)	2.8x	7.2x	4.8x	5.2x	

Adjusted EBITDA to interest expense, net(1)(4)	4.9x	4.9x	2.6x	2.8x
Ratio of earnings to fixed charges(5).......	2.0x	0.6x	1.4x	0.6x

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(1) EBITDA represents earnings before interest expense, net, income taxes, depreciation and amortization expense. Adjusted EBITDA represents EBITDA adjusted for recapitalization costs, merger integration costs, regulatory costs, termination and related costs, stock-based compensation, and extraordinary items. EBITDA and adjusted EBITDA are not presentations made in accordance with generally accepted accounting principles. EBITDA and adjusted EBITDA should not be considered in isolation or as substitutes for net income, cash flows from operating activities and other income or cash flow statement data prepared in accordance with generally accepted accounting principles or as measures of profitability or liquidity. EBITDA and adjusted EBITDA are included in this prospectus to provide additional information with respect to our ability

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to satisfy our debt service, capital expenditure and working capital requirements and because certain covenants in our debt instruments are based on similar measures. While EBITDA and adjusted EBITDA are used as measures of operations and the ability to meet debt service requirements, they are not necessarily comparable to other similarly titled captions of other companies due to differences in methods of calculations. The calculations of EBITDA and adjusted EBITDA are shown below:

	YEARS ENDED DECEMBER 31,				
	1996	1997	1998	1999	2000
			(IN THOUSANDS)		
Net income (loss).......................	$12,801	$(3,808)	$ 6,597	$(43,451)	$ (2,2
Depreciation expense..................	12,737	15,993	33,493	47,055	54,9
Amortization expense, primarily goodwill...........................	1,952	2,426	11,289	14,565	14,3
Interest expense, net.................	5,758	7,808	41,772	51,958	77,0
Provision for income taxes............	1,060	1,700	8,736	3,297	1,9
EBITDA.................................	34,308	24,119	101,887	73,424	146,1
Termination and related costs(a).......	--	--	--	--	4,5
Recapitalization, merger integration, and regulatory costs(b).............	--	16,350	2,818	52,581	4,5
Stock based compensation(c)...........	--	--	100	--	3
Extraordinary (gain) loss net of taxes..............................	(6,300)	(1,849)	2,271	17,766	
Adjusted EBITDA.........................	$28,008	$38,620	$107,076	$143,771	$155,5

(a) Termination and related costs for the year ended December 31, 2000 represent $4,232 associated with termination costs and the cash-out of stock options for an executive officer who resigned due to health-related issues and $341 associated with the recruitment of his replacement.

(b) Recapitalization, merger integration and regulatory costs for the year ended December 31, 2000, represent $704 of professional fees paid in connection with the KKR acquisition, $570 of compensatory costs related to stock option buy-backs and severance payments resulting from change in control provisions triggered by the KKR acquisition, $154 related to additional severance for employees of SMT, $123 of integration costs to migrate acquired entities to a common systems platform for direct patient billing, and $850 for assessments and $2,122 for costs and related professional fees to settle regulatory matters associated with the direct patient billing process of one of our acquired entities. Recapitalization, merger integration and regulatory costs for the year ended December 31, 1999, represent $19,640 in professional fees paid in connection with the KKR acquisition, $17,082 related to the purchase of outstanding stock options in connection with the KKR acquisition, $6,003 in bonus payments paid in connection with the KKR acquisition, $1,088 in provisions to conform the accounting policies with respect to accounts receivable reserves, as well as employee vacation and sick pay reserves in connection with the SMT merger, $2,164 in employee severance costs in connection with the SMT merger, $3,075 in professional fees and other merger integration costs associated with the SMT merger and other acquired entities, and $3,529 for assessments to settle regulatory matters associated with the direct patient billing process of one of our acquired entities. Recapitalization, merger integration and regulatory costs for the year ended December 31, 1998, represents $1,846 in special non-recurring bonuses paid in connection with the MTI acquisition, $722 of professional fees associated with accounting and billing systems conversions of acquired companies, and a $250 provision for bad debt conforming accounting adjustment made in connection with the American Shared acquisition. Recapitalization, merger integration and regulatory costs for the year ended December 31, 1997, represents $16,350 in professional fees and other costs paid in connection with the acquisition of substantially all of our company by Apollo Investment Fund III, L.P. and its related entities.

(c) Stock-based compensation of $333 for the year ended December 31, 2000, represents $55 for options issued to certain employees at exercise prices below the fair value of our common stock, $68 for Phantom Shares issued to four non-employee directors below fair market value, and $210 for common stock issued to one of our executive officers at below fair market value. Stock-based compensation of $100 for the year ended December 31, 1998, represents options issued to certain employees at exercise prices below the fair value of our common stock.

(2) Adjusted EBITDA margin is calculated by dividing adjusted EBITDA by revenues.

(3) For purposes of calculating net debt to adjusted EBITDA, net debt is defined as long-term debt, including current maturities, less cash and cash equivalents.

(4) For purposes of calculating adjusted EBITDA to interest expense, net, interest expense, net, is defined as interest expense net of interest income. Interest expense includes amortization of debt issuance costs.

(5) For the purpose of calculating the ratio of earnings to fixed charges, earnings are defined as income from continuing operations before income

taxes and extraordinary items, plus minority interest expense, plus distributions from equity investees, plus fixed charges, less income from equity investments. Fixed charges are the sum of interest on all indebtedness, amortization of debt issuance costs, and estimated interest on rental expense. Earnings were inadequate to cover fixed charges by $4.2 million and $21.4 million for the years ended December 31, 1997 and 1999, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

We are a leading national provider of outsourced diagnostic imaging services, with 91% of our 2000 revenues and 90% of our revenues for the first quarter of 2001 derived from MRI. We provide imaging and therapeutic services primarily to hospitals and other healthcare providers on a mobile, shared-service basis. Our services normally include the use of our imaging or therapeutic systems, technologists to operate the systems, equipment maintenance and upgrades and management of day-to-day operations. We had 392 diagnostic imaging and therapeutic systems, including 325 MRI systems, and 1,218 clients in 43 states at March 31, 2001.

Approximately 90% of our revenues for the year ended December 31, 2000 and for the quarter ended March 31, 2001 were generated by providing services to hospitals and other healthcare providers, which we refer to as wholesale revenues. Our wholesale revenues are typically generated from contracts that require our clients to pay us based on the number of scans we perform, although some pay us a flat fee for a period of time regardless of the number of scans we perform. These payments are due to us independent of our clients' receipt of reimbursement from third-party payors. We typically deliver our services for a set number of days per week through exclusive, long-term contracts with hospitals and other healthcare providers. These contracts, which are usually three to five years in length, are typically non-cancelable by our clients and often contain automatic renewal provisions. We price our contracts based on the type of system used, the scan volume, and the number of ancillary services provided.

Approximately 10% of our revenues for the year ended December 31, 2000 and for the quarter ended March 31, 2001 were generated by providing services directly to patients from our sites located at or near hospital or other healthcare provider facilities, which we refer to as retail revenues. Our revenue from these sites is generated from direct billings to patients or their third-party payors, which are recorded net of contractual discounts and other arrangements for providing services at discounted prices. We typically charge a higher price per scan under retail billing than we do under wholesale billing.

The principal components of our operating costs, excluding depreciation, are compensation paid to technologists and drivers, annual system maintenance costs, transportation and travel costs, and system rental costs. Because a majority of these expenses are fixed, increased revenue as a result of higher scan volumes per system significantly improves our margins while lower scan volumes result in lower margins.

The principal components of selling, general and administrative expenses are sales force compensation, marketing costs, business development expenses, corporate overhead costs and our provision for doubtful accounts. In addition, charges for non-cash stock-based compensation are also included in selling, general and administrative expenses. In 2000, we recorded $0.3 million in stock-based compensation. For the quarter ended March 31, 2001, we recorded $0.1 million in stock-based compensation and will record an additional $3.0 million in charges over the next eight years.

Over the past five years, we have increased revenue through acquisitions, increased scan volumes at existing client sites, and added new clients. During this same period, the growth rate of our adjusted EBITDA (income before income taxes, depreciation, amortization, net interest expense, recapitalization costs, merger integration costs, regulatory costs, termination and related costs, stock-based compensation, and extraordinary items) has exceeded the growth rate of revenue primarily as a result of spreading our fixed costs over a larger revenue base, implementing cost reduction and containment measures, and converting leased MRI systems obtained through acquisitions to owned MRI systems. In the second half of 2000, we added a substantial amount of infrastructure and upgraded our information systems in anticipation of supporting our future growth rate which increased our selling, general and

administrative expenses as a percentage of revenue in the first quarter of 2001 compared to the first quarter of 2000.

We have historically focused on attempting to maximize cash flow and return on invested capital nationwide and effectively deploying assets to maximize utilization. In both 1999 and 2000, we made significant investments in adding to and upgrading our MRI systems to improve service to our clients and add capacity for future growth. These additions to our MRI systems had the effect of slowing our growth rate in average daily scan volume per MRI system in 2000. Average daily scan volume per MRI system increased by 0.5 and 0.1 scans per day in 1999 and 2000, as compared to each preceding year.

At December 31, 2000, we had $167.7 million of net operating losses available for federal tax purposes to offset future taxable income, subject to certain limitations. These net operating losses begin to expire in 2003.

SEASONALITY

We experience seasonality in the revenues and margins generated for our services. First and fourth quarter revenues are typically lower than those from the second and third quarters. First quarter revenue is affected primarily by fewer calendar days and inclement weather, the results of which are fewer patient scans during the period. Fourth quarter revenue is affected primarily by holiday and client and patient vacation schedules and inclement weather, the results of which are fewer patient scans during the period. The variability in margins is higher than the variability in revenues due to the fixed nature of our costs.

SIGNIFICANT ACQUISITIONS AND OTHER TRANSACTIONS

On November 1, 2000, we acquired all of the outstanding common stock of Southeast Arizona, Inc. as well as a mobile MRI system from one of its affiliates. The purchase price was $4.1 million. The acquisition has been accounted for as a purchase and, accordingly, the results of operations of Southeast Arizona have been included in our consolidated financial statements from the date of acquisition.

On November 2, 1999, we merged with an affiliate of Kohlberg Kravis Roberts & Co., L.P., or KKR, who acquired control of Alliance from existing shareholders in a leveraged recapitalization transaction. The total value of the transaction, including fees and expenses, was approximately $980 million. The transaction was funded with senior secured credit facilities, a senior subordinated credit facility, and common equity.

On May 13, 1999, we acquired all the outstanding common stock of Three Rivers Holding Corp., the parent corporation of SMT Health Services, Inc., in a stock-for-stock merger. We exchanged approximately 1.6 million shares of common stock for all the outstanding common shares of Three Rivers. At the time of the merger, Three Rivers was wholly owned by affiliates of Apollo Management, L.P., which held approximately 82.6% of our outstanding common stock. Accordingly, the merger has been accounted for as a reorganization of entities under common control in a manner similar to a pooling of interests. As such, our accompanying financial statements, footnotes, and management's discussion and analysis of financial condition and results of operations have been restated to include the assets, liabilities and operations of SMT from the date when both entities were under Apollo's control, which was December 18, 1997.

On November 13, 1998, two of our wholly owned subsidiaries acquired all of the outstanding common stock of CuraCare, Inc. and all of the partnership interests in American Shared-CuraCare. The purchase price consisted of approximately $13.4 million in cash plus the assumption of approximately $12.2 million in financing arrangements. The transaction has been accounted for as a purchase and, accordingly, the results of operations of CuraCare and American Shared have been included in our consolidated financial statements from the date of acquisition.

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On August 17, 1998, SMT acquired all of the outstanding common stock of RIA Management Services, Inc. The acquisition was accounted for as a purchase and, accordingly, the results of operations of RIA have been included in our consolidated financial statements from the date of acquisition. The purchase price consisted of approximately $2.1 million in cash plus the assumption of approximately $1.1 million in financing arrangements.

On May 19, 1998, we acquired Medical Diagnostics, Inc., a subsidiary of U.S. Diagnostic, Inc. The purchase price consisted of approximately $31.0 million plus the assumption of approximately $7.4 million in financing arrangements. The acquisition has been accounted for as a purchase and, accordingly, the results of operations of Medical Diagnostics have been included in our consolidated financial statements from the date of acquisition.

On March 12, 1998, we acquired Mobile Technology Inc., a provider of mobile MRI services in the United States, in a transaction accounted for as a purchase. We have included the operations of Mobile Technology in our consolidated financial statements from the date of acquisition. The purchase price consisted of $58.3 million for all of the equity interests in Mobile Technology plus direct acquisition costs of approximately $2.0 million. In connection with the acquisition, we also refinanced $37.4 million of Mobile Technology's outstanding debt and paid Mobile Technology's direct transaction costs of $3.5 million.

On January 2, 1998, Canton Holding Corp., a wholly owned subsidiary of SMT, acquired all of the outstanding common stock of Mid American Imaging, Inc. and Dimensions Medical Group, Inc. The acquisition was accounted for as a purchase and accordingly, the results of operations of Mid American Imaging and Dimensions Medical Group have been included in our consolidated financial statements from the date of acquisition. The purchase price consisted of approximately $10.4 million in cash plus the assumption of approximately $5.1 million in financing arrangements.

RESULTS OF OPERATIONS

QUARTER ENDED MARCH 31, 2001 COMPARED TO QUARTER ENDED MARCH 31, 2000

Revenue increased $7.0 million, or 8.3%, to $91.3 million in the first quarter of 2001 compared to $84.3 million in the first quarter of 2000 primarily due to higher scan-based MRI revenue and higher MRI revenue under fixed-fee contracts. Overall, scan-based MRI revenue for the quarter ended March 31, 2001 increased $5.2 million, or 7.4%, compared to the quarter ended March 31, 2000 primarily as a result of a 10.4% increase in our MRI scan volume. We attribute this increase to the increase in the number of scans for existing clients primarily as a result of our continuing MRI systems upgrade program, and to additional scan-based systems in operation. The average daily scan volume per MRI system increased to 9.5 in the first quarter of 2001 from 9.4 in the first quarter of 2000. The increase in scan-based revenue was partially offset by a 2.8% decrease in average price per MRI scan. The decrease in average price realized per scan is primarily the result of an increase in wholesale revenue compared to retail revenue, which has a higher per-scan price, as a percentage of total MRI revenue, granting price reductions to certain clients, and clients achieving discounted price levels on incremental scan volume. Fixed-fee MRI revenue increased $0.2 million, or 4.0%, due to an increase in short and long-term fixed-fee system rental contracts. Additionally, other revenue increased $1.6 million, or 19.1%, primarily due to an increase in positron emission tomography, or PET, revenue.

We had 325 MRI systems at March 31, 2001 compared to 296 MRI systems at March 31, 2000. The increase was primarily a result of planned system additions to satisfy client demand.

Operating expenses, excluding depreciation, increased $3.3 million, or 9.0%, to $39.9 million in the first quarter of 2001 compared to $36.6 million in the first quarter of 2000. Payroll and related employee expenses increased $2.0 million, or 10.8%, primarily as a result of an increase in the number of employees necessary to support new systems in operation and an increase in technologists' wages. System maintenance expense increased $1.0 million, or 12.7%, primarily due to an increase in the

number of systems in service. Medical supplies increased $0.4 million, or 30.4%, primarily as a result of an increase in radiopharmaceutical expenses associated with PET. Rental expense decreased $1.0 million, or 24.3%, resulting from a lower number of leased MRI systems and transportation units in operation. Expenses incurred under management agreements increased $0.3 million, or 28.7%. All other operating expenses, excluding depreciation, increased $0.6 million, or 13.3%, primarily due to an increase in the number of systems in operation and an increase in average daily scan volume. Operating expenses, excluding depreciation, as a percentage of revenue, increased from 43.4% in the first quarter of 2000 to 43.7% in the first quarter of 2001 as a result of the factors described above.

Depreciation expense increased $2.7 million, or 21.3%, to $15.4 million in the first quarter of 2001 compared to $12.7 million in the first quarter of 2000 principally due to a higher amount of depreciable assets associated with system additions and upgrades.

Selling, general and administrative expenses increased $1.9 million, or 20.7%, to $11.1 million in the first quarter of 2001 compared to $9.2 million in the first quarter of 2000. Payroll and related employee expenses increased $1.1 million, or 21.1%, primarily due to increased staffing levels primarily in the areas of patient billing and scheduling, information services, corporate development, human resources and legal. Professional service expenses increased $0.4 million, or 130%, primarily as a result of increased consulting costs for information services, sales, and finance. Also, we recorded a $0.1 million charge for stock-based compensation in the first quarter of 2001. All other selling, general and administrative expenses increased $0.3 million. Selling, general and administrative expenses as a percentage of revenue increased from 10.9% in the first quarter of 2000, to 12.2% in the first quarter of 2001 as a result of the factors described above.

Amortization expense, primarily related to goodwill, totaled $3.6 million in the first quarter of 2001 and 2000.

Interest expense, net, decreased $0.1 million, or 0.1%, to $18.8 million in the first quarter of 2001 compared to $18.9 million in the first quarter of 2000, primarily as a result of a decrease in amortization of deferred financing costs and a decrease due to one less day in the first quarter of 2001 compared to the corresponding quarter in 2000. These factors were partially offset by higher average interest rates and higher average outstanding debt balances during the first quarter of 2001 as compared to the first quarter of 2000. The interest rate on substantially all of our long-term debt is variable.

Provision for income taxes in the first quarter of 2001 was $1.2 million, resulting in an effective tax rate of 50.0%, primarily as a result of non-deductible goodwill and state income taxes. Provision for income taxes in the first quarter of 2000 was $1.4 million, resulting in an effective tax rate of 50.0%, primarily as a result of non-deductible goodwill and state income taxes.

Our net income was $1.2 million in the first quarter of 2001 compared to net income of $1.4 million in the first quarter of 2000.

YEAR ENDED DECEMBER 31, 2000 COMPARED TO YEAR ENDED DECEMBER 31, 1999

Revenue increased $27.2 million, or 8.6%, to $345.3 million in 2000 compared to $318.1 million in 1999 primarily due to higher scan-based MRI revenue and higher MRI revenue under fixed-fee contracts. Overall, scan-based MRI revenue in 2000 increased $18.7 million, or 6.8%, compared to 1999 primarily as a result of an 11.5% increase in our MRI scan volume. We attribute this increase to the increase in the number of scans for existing clients primarily as a result of our continuing MRI systems upgrade program, and to additional scan-based systems in operation. The average daily scan volume per MRI system increased to 9.4 in 2000 from an estimated 9.3 in 1999. The increase in scan-based revenue was partially offset by a decrease in scan volume from clients who did not renew their contracts and an estimated 4.3% decrease in average price per MRI scan. The decrease in average price realized per scan is primarily the result of an increase in wholesale revenue compared to retail

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revenue, which has a higher per-scan price, as a percentage of total MRI revenue, granting price reductions to certain clients, and clients achieving discounted price levels on incremental scan volume. Fixed-fee MRI revenue increased $7.8 million, or 61.3%, due to an increase in short and long-term fixed-fee system rental contracts. Additionally, revenue associated with management agreements increased $1.6 million, or 23.8%, and other revenue decreased $0.9 million, or 3.8%.

We had 319 MRI systems at December 31, 2000 compared to 283 MRI systems at December 31, 1999. The increase was primarily a result of planned system additions to satisfy client demand.

Operating expenses, excluding depreciation, increased $8.5 million, or 5.9%, to $151.7 million in 2000 compared to $143.2 million in 1999. Payroll and related employee expenses increased $8.2 million, or 13.0%, primarily as a result of an increase in the number of employees necessary to support new systems in operation and an increase in technologists' wages. Fuel expense increased $1.1 million, or 36.6%, primarily as a result of an increase in fuel prices as well as an increase in the number of shared use MRI systems in operation. System rental expense decreased $2.3 million, or 20.3%, resulting from a lower number of leased MRI systems in operation. Expenses incurred under management agreements increased $1.1 million, or 29.7%. All other operating expenses, excluding depreciation, increased $0.4 million. Operating expenses, excluding depreciation, as a percentage of revenue, decreased from 45.0% in 1999 to 43.9% in 2000 as a result of spreading our fixed costs over a larger revenue base and a conversion of leased systems to owned systems upon the expiration of operating leases.

Depreciation expense increased $7.8 million, or 16.6%, to $54.9 million in 2000 compared to $47.1 million in 1999 principally due to a higher amount of depreciable assets associated with system additions and upgrades.

Selling, general and administrative expenses increased $7.2 million, or 23.2%, to $38.3 million in 2000 compared to $31.1 million in 1999. Payroll and related employee related expenses increased $2.3 million, or 11.9%, primarily due to increased staffing levels primarily in the areas of retail billing and collections, information systems, corporate development and legal. Professional service expenses increased $1.0 million, or 101%, primarily as a result of increased information services costs associated with training for the implementation of our retail billing system as well as increased costs incurred to support our financial, marketing and operations functions. Marketing and business development expenses increased $0.4 million, or 78.7%, primarily as a result of our sales and marketing efforts associated with positron emission tomography, or PET, services. The provision for doubtful accounts increased by $1.5 million primarily as a result of the growth in revenue. Also, we recorded $0.8 million in expenses associated with a compliance review and a $0.3 million charge for stock-based compensation in 2000. All other selling, general and administrative expenses increased $0.9 million. Selling, general and administrative expenses as a percentage of revenue increased from 9.8% in 1999, to 11.1% in 2000 as a result of the factors described above.

Amortization expense, primarily related to goodwill, totaled $14.4 million in 2000 and $14.6 million in 1999.

Termination and related costs of $4.6 million for the year ended December 31, 2000 represent $4.3 million associated with termination costs and the repurchase of stock options for an executive officer who resigned his management duties due to health-related issues and $0.3 million associated with the recruitment of his replacement.

Recapitalization, merger integration and regulatory costs of $4.5 million for the year ended December 31, 2000 represent $0.7 million of professional fees paid in connection with the KKR acquisition, $0.6 million of compensatory costs related to stock option buy-backs and severance payments resulting from change in control provisions triggered by the KKR acquisition, $0.1 million related to additional severance for employees of SMT, $0.1 million of integration costs