ALLIANCE IMAGING INC /DE/
Form S-4/A
May 25, 2005

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As filed with the Securities and Exchange Commission on May 24, 2005

Registration No. 333-124431

UNITED STATES
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 (State or Other Jurisdiction of Incorporation or Organization)	**8071** (Primary Standard Industrial Classification Code Number)	**33-0239910** (I.R.S. Employer Identification Number)

1900 S. State College Blvd., Suite 600
Anaheim, California 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.
1900 S. State College Blvd., Suite 600
Anaheim, California 92806
(714) 688-7100

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

Copy to:
Nicholas S. O'Keefe, Esq.
Latham & Watkins LLP
135 Commonwealth Drive
Menlo Park, California 94025
(650) 463-3018

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this registration statement.

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. o

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. o

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. o

The Registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until 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 or until this registration statement shall become effective on such date as the SEC, acting pursuant to said Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities, and we are not soliciting offers to buy these securities, in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED MAY 24, 2005

PRELIMINARY PROSPECTUS

OFFER TO EXCHANGE

$150,000,000 principal amount of its
$7^{1}/_{4}$% Senior Subordinated Notes due 2012
which have been registered under the Securities Act,
for any and all of its outstanding $7^{1}/_{4}$% Senior Subordinated Notes due 2012

The exchange offer expires at 5:00 p.m., New York City time, on , 2005, unless extended.

We will exchange all outstanding notes that are validly tendered and not validly withdrawn for an equal principal amount of a new series of notes which are registered under the Securities Act.

The exchange offer is not subject to any conditions other than that it not violate applicable law or any applicable interpretation of the staff of the SEC.

You may withdraw tenders of outstanding notes at any time before the exchange offer expires.

The exchange of notes will not be a taxable event for U.S. federal income tax purposes.

We will not receive any proceeds from the exchange offer.

The terms of the new series of notes are substantially identical to the outstanding notes, except for transfer restrictions and registration rights relating to the outstanding notes.

You may tender outstanding notes only in denominations of $1,000 and multiples of $1,000.

Our affiliates may not participate in the exchange offer.

Please refer to "Risk Factors" beginning on page 8 of this prospectus for a description of the risks you should consider before buying the notes.

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

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

The date of this prospectus is , 2005

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

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

This prospectus incorporates important business and financial information about us that is not included in or delivered with this prospectus. This information is available without charge to you upon written or oral request. If you would like a copy of any of this information, please submit your request to Alliance Imaging, Inc., 1900 S. State College Blvd., Suite 600, Anaheim, California 92806, Attention: Investor Relations, tel: (714) 688-7100. In addition, to obtain timely delivery of any information you request, you must submit your request no later than , 2005, which is five business days before the date the exchange offer expires.

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DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

We have made statements under the captions "Summary," "Risk Factors," "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;
- the risk that the counter-parties to our interest rate swap agreements fail to satisfy their obligations under these agreements;
- 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.

PROSPECTUS SUMMARY

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

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

Our Company

We are a leading national provider of shared-service and fixed-site diagnostic imaging services, based upon annual revenue and number of systems deployed. In the first quarter of 2005, 70% of our revenues were derived from magnetic resonance imaging, or MRI, and 21% were derived from positron emission tomography and positron emission tomography/computed tomography, or PET and PET/CT. We provide imaging services primarily to hospitals and other healthcare providers on a shared and full-time service basis, in addition to operating a growing number of fixed-site imaging centers primarily in partnerships with hospitals or health systems. Our services normally include the use of our imaging systems, technologists to operate the systems, equipment maintenance and upgrades and management of day-to-day operations. We also offer ancillary services including marketing support, education and training and billing assistance. We had 466 diagnostic imaging systems, including 354 MRI systems and 56 PET or PET/CT systems, and served over 1,000 clients in 43 states at March 31, 2005. Of these 466 diagnostic imaging systems, 62 were located in fixed-sites, which constitutes systems installed in hospitals or other buildings on hospital campuses, medical groups' offices, or medical buildings and retail sites. Of these fixed-sites, 54 were included in our MRI systems count.

We typically deliver our services through exclusive, long-term contracts with hospitals and other healthcare providers which generally require them to pay us monthly, based on the number of scans we perform. These contracts average approximately three years in length and often contain automatic renewal provisions. For the year ended December 31, 2004, we received approximately 87% of our revenues from direct billing of our clients.

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

- avoid 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;
- benefit from upgraded imaging systems without direct capital expenditures;
- eliminate the need to recruit, train and manage qualified technologists;
- make use of our ancillary services; and
- gain access to services under our regulatory and licensing approvals when they do not have these approvals.

Our Competitive Strengths

We believe we benefit from the following competitive strengths:

- our position as a leading national provider of shared-service and fixed site MRI and PET and PET/CT services, based on annual revenue and number of systems deployed;
- exclusive, long-term contracts with a diverse client base;
- reduced reimbursement risk because we generate approximately 87% of our revenues by billing hospitals and clinics rather than patients or other third-party payors;
- our ability to provide a comprehensive diagnostic imaging solution; and
- our advanced MRI and PET and PET/CT systems.

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

Refinancing Transactions

On December 29, 2004, we completed the following refinancing transactions:

- the issuance of the private notes;
- the purchase in a tender offer of $256.4 million aggregate principal amount of our outstanding $10^3/_8$% Senior Subordinated Notes due 2011, or approximately 98.6% of the outstanding notes; and
- the amendment of our existing credit agreement to refinance our Tranche C term loan facility, decrease the borrowing rate and decrease the maximum amount of availability under our existing revolving loan facility from $150.0 million to $70.0 million.

The refinancing transactions were financed with cash on hand, the net proceeds of the notes offering and the incurrence of $154.0 million in incremental principal borrowings under our credit agreement.

Our Sponsor

Kohlberg Kravis Roberts & Co. L.P., is one of the world's most experienced private equity firms specializing in management buyouts. Over the past 28 years, KKR has raised approximately $25.0 billion in private equity funds and invested over $19.0 billion of equity in more than 115 transactions.

We are a Delaware corporation with our principal executive offices located at 1900 S. State College Blvd., Suite 600, Anaheim, California 92806. Our telephone number at that location is (714) 688-7100.

The Exchange Offer

The Exchange Offer	We are offering to exchange the exchange notes for the outstanding private notes that are properly tendered and accepted. You may tender outstanding private notes only in denominations of $1,000 and multiples of $1,000. We will issue the exchange notes on or promptly after the exchange offer expires. As of the date of this prospectus, $150,000,000 principal amount of private notes is outstanding.
Expiration Date	The exchange offer will expire at 5:00 p.m., New York City time, on , 2005, unless extended, in which case the expiration date will mean the latest date and time to which we extend the exchange offer.
Conditions to the Exchange Offer	The exchange offer is not subject to any condition other than that it not violate applicable law or any applicable interpretation of the staff of the SEC. The exchange offer is not conditioned upon any minimum principal amount of private notes being tendered for exchange.
Procedures for Tendering Private Notes	If you wish to tender your private notes for exchange notes pursuant to the exchange offer you must transmit to The Bank of New York Trust Company, N.A., as exchange agent, on or before the expiration date, either: a computer generated message transmitted through The Depository Trust Company's Automated Tender Offer Program system and received by the exchange agent and forming a part of a confirmation of book-entry transfer in which you acknowledge and agree to be bound by the terms of the letter of transmittal; or a properly completed and duly executed letter of transmittal, which accompanies this prospectus, or a facsimile of the letter of transmittal, together with your private notes and any other required documentation, to the exchange agent at its address listed in this prospectus and on the front cover of the letter of transmittal. If you cannot satisfy either of these procedures on a timely basis, then you should comply with the guaranteed delivery procedures described below. By executing the letter of transmittal, you will make the representations to us described under "The Exchange Offer Procedures for Tendering."
Special Procedures for Beneficial Owners	If you are a beneficial owner whose private notes are registered in the name of a broker, dealer, commercial bank, trust company or other nominee and you wish to tender your private notes in the exchange offer, you should contact the registered holder promptly and instruct the registered holder to tender on your behalf. If you wish to tender on your own behalf, you must either

	(1) make appropriate arrangements to register ownership of the private notes in your name or (2) obtain a properly completed bond power from the registered holder before completing and executing the letter of transmittal and delivering your private notes.
Guaranteed Delivery Procedures	If you wish to tender your private notes and time will not permit the documents required by the letter of transmittal to reach the exchange agent before the expiration date, or the procedure for book-entry transfer cannot be completed on a timely basis, you must tender your private notes according to the guaranteed delivery procedures described in this prospectus under the heading "The Exchange Offer Guaranteed Delivery Procedures."
Acceptance of the Private Notes and Delivery of the Exchange Notes	Subject to the satisfaction or waiver of the conditions to the exchange offer, we will accept for exchange any and all private notes which are validly tendered in the exchange offer and not withdrawn before 5:00 p.m., New York City time, on the expiration date.
Withdrawal Rights	You may withdraw the tender of your private notes at any time before 5:00 p.m., New York City time, on the expiration date, by complying with the procedures for withdrawal described in this prospectus under the heading "The Exchange Offer Withdrawal of Tenders."
Material Federal Tax Consequences	The exchange of notes will not be a taxable event for U.S. federal income tax purposes. For a discussion of material federal tax considerations relating to the exchange of notes, see "Material Federal Income Tax Consequences."
Exchange Agent	The Bank of New York Trust Company, N.A., the trustee under the indenture governing the notes, is serving as the exchange agent.
Consequences of Failure to Exchange	If you do not exchange your private notes for exchange notes, you will continue to be subject to the restrictions on transfer provided in the private notes and in the indenture governing the private notes. In general, the private notes may not be offered or sold, unless registered under the Securities Act, except pursuant to an exemption from, or in a transaction not subject to, the Securities Act and applicable state securities laws. We do not currently plan to register the private notes under the Securities Act.
Registration Rights Agreement	You are entitled to exchange your private notes for exchange notes with substantially identical terms. This exchange offer satisfies this right. After the exchange offer is completed, you will no longer be entitled to any exchange or registration rights with respect to your private notes.

We explain the exchange offer in greater detail beginning on page 20.

The Exchange Notes

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

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

Issuer	Alliance Imaging, Inc.
Securities Offered	\$150.0 million aggregate principal amount of $7^1/_4$% Senior Subordinated Notes due 2012.
Maturity	December 15, 2012.
Interest Rate	$7^1/_4$% per year (calculated using a 360-day year).
Interest Payment Dates	June 15 and December 15 of each year, commencing June 15, 2005. Interest will accrue from the issue date of the notes.
Ranking	The notes will be unsecured senior subordinated obligations of the Company, will rank junior in right of payment to our existing and future senior debt, will rank pari passu in right of payment with any of our future senior subordinated debt and will be senior in right of payment to any future junior subordinated debt. The notes will be effectively subordinated in right of payment to all obligations of our subsidiaries. As of March 31, 2005, excluding approximately \$64.8 million that we had available to borrow under our credit facility, we had \$395.8 million of indebtedness, which was senior in right of payment to the notes. Of this amount, our subsidiaries had total liabilities of \$9.3 million which are structurally senior to the notes. See "Selected Financial Information and Other Data," "Risk Factors Risks Related to Our Indebtedness" and "Description of the Notes Subordination."
Optional Redemption	Except as provided below, we cannot redeem the notes until December 15, 2007. Thereafter, we may redeem some or all of the notes at the redemption prices listed in the "Description of the Notes" section under the heading "Optional Redemption," plus accrued and unpaid interest.
Optional Redemption After Equity Offerings	At any time (which may be more than once) before December 15, 2007, we can choose to redeem up to 40% of the outstanding notes with money that we raise in one or more equity offerings, as long as at least 60% of the aggregate principal amount of notes issued remains outstanding afterwards. See "Description of the Notes Optional Redemption."
Change of Control	If a change in control of the Company occurs, we will have the option, at any time prior to December 15, 2007, to redeem the notes, in whole but not in part, at a redemption price equal to 100% of the aggregate principal amount of the notes plus a make-whole premium as described herein, together with accrued and unpaid interest, if any, to the date of redemption. If a change in control of the Company occurs and we do not elect to redeem the notes, we must give holders of the notes the opportunity to sell us their notes at 101% of their face amount, plus accrued interest. We might not be able to pay you the required price for notes you present to us at the time of a change of control, because:

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

Asset Sale Proceeds	If we or our subsidiaries engage in asset sales, we generally must either invest the net cash proceeds from such sales in our business within a period of time, prepay senior debt or make an offer to purchase a principal amount of the notes equal to the excess net cash proceeds. The purchase price of the notes will be 100% of their principal amount, plus accrued interest.
Indenture Provisions	The indenture governing the notes will contain covenants limiting our (and most or all of our subsidiaries') ability to: pay dividends or make certain other restricted payments or investments; incur additional indebtedness and issue disqualified stock; create liens on assets; merge, consolidate, or sell all or substantially all of our and our restricted subsidiaries' assets; enter into certain transactions with affiliates; create restrictions on dividends or other payments by our restricted subsidiaries; create guarantees of indebtedness by restricted subsidiaries; and incur subordinated indebtedness that is senior in right of payment to the notes. These covenants are subject to a number of important limitations and exceptions. See "Description of the Notes Certain Covenants."
Use of Proceeds	We will not receive any cash proceeds from the exchange offer.

We explain the exchange notes in greater detail beginning on page 82.

Summary Historical Consolidated Financial and Other Data
(in thousands, except per share data)

We derived the following summary historical consolidated financial information from our financial statements. The following summary historical consolidated financial information with respect to each year in the three-year period ended December 31, 2004 are derived from our audited consolidated financial statements. We derived the summary historical consolidated financial information as of and for the three months ended March 31, 2004 and 2005 from our unaudited consolidated financial statements. Our unaudited consolidated financial statements for the three months ended March 31, 2004 and 2005 include, in the opinion of management, all adjustments consisting of normal recurring adjustments, necessary for a fair presentation of the results for the period. The results of interim periods are not indicative of our results for the full year. The summary historical consolidated financial information provided below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and notes thereto included elsewhere in this prospectus.

	Year Ended December 31,			Quarter Ended March 31	
	2002	2003	2004	2004	2005
	(dollars in thousands)				
Consolidated Statements of Operations Data:					
Revenues	$ 408,530	$ 413,553	$ 432,080	$ 105,646	$ 105,964
Costs and expenses:					
Costs of revenues, excluding depreciation and amortization	184,050	198,456	217,605	53,272	53,936
Selling, general and administrative expenses	45,822	47,472	48,142	12,168	11,686
Employment agreement costs		2,446	2,064	305	274
Severances and related costs		2,246	1,223		
Loss on early retirement of debt			44,393		
Impairment charges		73,225			
Depreciation expense	69,384	77,675	80,488	20,845	20,463
Amortization expense	2,502	2,897	3,522	876	881
Interest expense, net	47,705	43,589	44,039	10,608	9,061
Other (income) and expense, net	(872)	(200)	(484)	34	(332)
Total costs and expenses	348,591	447,806	440,992	98,108	95,969
Income (loss) before income taxes, minority interest expense and earnings from unconsolidated investees	59,939	(34,253)	(8,912)	7,538	9,995
Income tax expense (benefit)	25,495	(1,680)	(6,770)	3,106	4,132
Minority interest expense	2,008	1,686	2,373	785	412
Earnings from unconsolidated investees	(3,503)	(2,649)	(4,029)	(893)	(684)
Net income (loss)	$ 35,939	$ (31,610)	$ (486)	$ 4,540	$ 6,135
Consolidated Balance Sheet Data (at end of period):					
Cash and cash equivalents	$ 31,413	$ 20,931	$ 20,721	$ 30,156	$ 9,100
Total assets	687,404	628,176	622,198	646,434	608,004
Long-term debt, including current maturities	608,862	581,247	575,664	579,980	549,379
Stockholders' deficit	(42,309)	(70,798)	(67,528)	(66,104)	(57,388)
Other Data:					
Cash flows provided by (used in):					
Operating activities	$ 138,960	$ 129,007	$ 120,898	35,906	$ 27,098
Investing activities	(76,942)	(106,371)	(75,558)	(25,420)	(12,967)
Financing activities	(52,656)	(33,118)	(45,550)	(1,261)	(25,752)
Capital expenditures	70,136	90,245	85,676	27,495	13,500

RISK FACTORS

You should carefully consider the risk factors set forth below as well as other information contained in this prospectus before you decide whether to tender your private notes in the exchange offer. The risks described below are not the only ones facing us. Additional risks not currently known to us or those we currently believe are immaterial also may impair our business operations and our liquidity.

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. On March 31, 2005, we had $549.4 million of outstanding debt, excluding letters of credit and guarantees. Of our total debt, $384.9 million consisted of borrowings under our credit facility, $153.5 million consisted of the private notes and our 10-3/8% senior subordinated notes due 2011, and $11.0 million consisted of equipment debt and capitalized lease obligations. In addition, for the three months ended March 31, 2005, our ratio of earnings to fixed charges was 1.7x.

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 March 31, 2005, $54.8 million of our debt was 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 March 31, 2005, our revolving credit facility permitted additional borrowings of up to approximately $64.8 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 governing the notes and instruments governing our other indebtedness.

The indenture for the notes and our credit facility 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 Relating to Our Business

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

We derive approximately 13% of our revenues from direct billings to patients and third-party payors such as Medicare, Medicaid or private health insurance companies, and changes in the rates or methods of reimbursement for the services we provide could have a significant negative impact on those revenues. Moreover, our healthcare provider clients on whom we depend for the majority of our revenues generally rely on reimbursement from third-party payors. In the past, initiatives have been proposed which, if implemented, would have had the effect of substantially decreasing reimbursement rates for diagnostic imaging services. For example, the 2005 update to the Medicare outpatient prospective payment system, which was announced in November 2004, reclassified several PET procedures into a new technology ambulatory payment classification that is different from that to which they were assigned in 2004. As a result of reclassification, Medicare payment for PET scans provided in hospital outpatient departments will decline from $1,450 to $1,150 in 2005. This change, and other 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 lowered 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.

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 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. As a result, our revenues may significantly vary from quarter to quarter, and our quarterly results may be below market expectations. 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. If this happens, it 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., Medquest, Inc., Radiologix, Inc., Medical Resources, Inc., Shared Medical Services, Kings Medical Company Inc. and Otter Tail Power Company. 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. While we believe that we had a greater number of diagnostic imaging systems deployed at the end of 2004 than our principal competitors and also had greater revenue from diagnostic imaging services during our 2004 fiscal year than they did, 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 contracts 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.

We may be unable to effectively maintain our imaging 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 are 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. During the quarter ended March 31, 2005, we continued to experience a high rate of contract terminations primarily due to stepped up marketing, sales and attractive financing alternatives being offered by original equipment manufacturers to our clients. A portion of our clients can execute their early termination clause and discontinue service prior to maturity. As a result, our first quarter 2005 MRI revenues declined compared to first quarter 2004 levels and we believe that MRI revenues from our shared service operations will continue to decline in future periods. If these contracts are not renewed, it could result in a significant negative impact on our business. 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 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 with coverage that we believe is consistent with industry practice and appropriate in light of the risks attendant to our business. 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 particular, we depend upon Mr. Viviano, our Chief Executive Officer and the Chairman of our Board of Directors for his skills, experience, knowledge of the company and industry contacts. While we have an employment agreement with Mr. Viviano, it only has a two-year term, which is subject to automatic extensions on a quarterly basis. Mr. Viviano can prevent a quarterly extension by giving notice of a desire to modify or terminate his agreement at least thirty days prior to the quarterly extension date. In addition, we do not have key employee insurance policies covering any of our management team. The loss of Mr. Viviano, or other members of our management team, could have a material adverse effect on our business, results of operations or financial condition.

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.

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.

Viewer Holdings L.L.C., an affiliate of Kohlberg Kravis Roberts & Co ("KKR"), owns approximately 71% of our common equity without giving effect to phantom shares held by four members of KKR's management who are on our board of directors. These directors in the aggregate hold 45,721 phantom shares, which gives them the right to receive an equivalent number of shares of our common stock, or cash, upon their retirement or separation from the board of directors or upon the occurrence of a change of control. KKR 1996 GP L.L.C. is the sole general partner of KKR Associates 1996 L.P., which is the sole general partner of KKR 1996 Fund L.P. As of the date hereof, KKR 1996 Fund L.P. is the senior member of Viewer Holdings L.L.C. Michael W. Michelson and James H. Greene, two of the members of our board of directors, are among the members of KKR 1996 GP L.L.C. Mr. Michelson is also the Chairperson of our Compensation Committee and a member of our Executive Committee. James C. Momtazee and Adam H. Clammer, who are also executives of KKR and limited partners of KKR Associates 1996 L.P., are also members of our board of directors. Mr. Momtazee is also a member of our Compensation Committee and our Executive Committee. We sometimes refer to KKR 1996 GP L.L.C., KKR Associates 1996 L.P., KKR 1996 Fund L.P. and various affiliated entities as KKR. KKR provides management, consulting and financial services to us and we paid KKR an annual fee of $650,000 in 2004 in quarterly installments in arrears at the end of each calendar quarter for those services.

As a result of the arrangements described above, KKR controls us and circumstances may occur in which the interests of KKR could be in conflict with the interest of the holders of the notes. In addition, KKR may have an interest in pursuing acquisitions, divestitures or other transactions that, in their judgment, could enhance their equity investment, even though such transactions might involve risks to the holders of the notes.

Our positron emission tomography and positron emission tomography/computed tomography, or PET and PET/CT, 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 and PET/CT service and some of our other imaging 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. We maintain professional liability insurance with coverage that we believe is consistent with industry practice and appropriate in light of the risks attendant to our business. However, 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 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 addition, 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.

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 operating results.

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, including the federal Anti-Kickback Law and similar state anti-kickback laws, the Stark Law and similar state laws affecting physician referrals, the federal False Claims Act, the Health Insurance Portability and Accountability Act of 1996 and similar state laws addressing privacy and security, state unlawful practice of medicine and fee splitting laws, state certificate of need laws, the Medicare and Medicaid regulations, the Medicare Prescription Drug, Improvement and Modernization Act of 2003, and requirements for handling biohazardous and radioactive materials and wastes.

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," "Business Reimbursement," and "Business Environmental, Health and Safety Laws."

Federal and state anti-kickback and anti-self-referral laws may adversely affect our operations and income.

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

The Stark Law prohibits a physician from referring Medicare or Medicaid patients to any entity for certain designated health services (including MRI and other diagnostic imaging services) if the physician has a prohibited financial relationship with that entity, unless an exception applies. The Stark Law also prohibits the entity from billing for any such prohibited referral. Although we believe that our operations do not violate the Stark Law, our activities may be challenged. If a challenge to our activities is successful, it could have an adverse effect on our operations. In addition, legislation may be enacted in the future that further addresses Medicare and Medicaid fraud and abuse or that imposes additional requirements or burdens on us.

A number of states in which our diagnostic imaging centers are located have adopted a form of anti-kickback law and/or Stark Law. The scope of these laws and the interpretations of them vary from state to state and are enforced by state courts and regulatory authorities, each with broad discretion. A determination of liability under the laws described in this risk factor could result in substantial fines and penalties, restrictions on our ability to operate in these jurisdictions and/or possible exclusion from federal or state healthcare programs.

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 have been and continue to be numerous initiatives at the federal and state levels for reforms affecting the payment for and availability of healthcare services, including 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 the Notes

If you do not exchange your notes pursuant to this exchange offer, you may never be able to sell your notes.

It may be difficult for you to sell notes that are not exchanged in the exchange offer. Those notes may not be offered or sold unless they are registered or there are exemptions from the registration requirements under the Securities Act and applicable state securities laws.

If you do not tender your private notes or if we do not accept some of your private notes, those notes will continue to be subject to the transfer and exchange restrictions in:

- the indenture;
- the legend on the private notes; and
- the offering circular relating to the private notes.

The restrictions on transfer of your private notes arise because we issued the private notes pursuant to an exemption from the registration requirements of the Securities Act and applicable state securities laws. In general, you may only offer or sell the private notes if they are registered under the Securities Act and applicable state securities laws, or offered and sold pursuant to an exemption from such requirements. We do not intend to register the private notes under the Securities Act. To the extent private notes are tendered and accepted in the exchange offer, the trading market, if any, for the private notes would be adversely affected.

Holders of senior indebtedness will be paid before holders of the notes are paid.

The notes rank junior in right of payment behind all of our existing indebtedness and all of our future indebtedness unless that indebtedness expressly provides that it ranks *pari passu* in right of payment 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 this offering on March 31, 2005, the notes would have been subordinated to $395.8 million of senior debt, and approximately $64.8 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 liabilities 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 liabilities of our subsidiaries, which totaled $9.3 million outstanding as of March 31, 2005. 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.

An active trading market may not develop for the notes.

There is no existing trading market for the notes. Although each initial purchaser has informed us that it currently intends to make a market in the exchange notes, they have no obligation to do so and may discontinue making a market at any time without notice.

We do not intend to apply for listing of the exchange notes, on any securities exchange or for quotation on the Nasdaq National Market.

In addition, the liquidity of any market for the exchange notes will depend on a number of factors, including:

- the number of holders of the exchange notes;
- our performance;
- the market for similar securities;
- the interest of securities dealers in making a market in the exchange notes; and
- prevailing interest rates.

An active market for the notes may not develop and, if it develops, it may not continue.

REFINANCING TRANSACTIONS

The issuance of the private notes was part of the refinancing transactions that we concluded on December 29, 2004. The other principal elements of the refinancing transactions are described below. The refinancing transactions were financed with cash on hand, the net proceeds of the notes offering and the incurrence of $390.0 million in aggregate principal amount of new term loans under our credit agreement.

Tender Offer for the 10$^3/_8$% Senior Subordinated Notes due 2011

As part of the refinancing transactions, we purchased in a tender offer approximately $256.4 million in aggregate principal amount of our outstanding 10$^3/_8$% Senior Subordinated Notes due 2011. This represented approximately 98.6% of the $260 million aggregate principal amount of these notes that were outstanding. In connection with the tender offer, we entered into a supplemental indenture eliminating substantially all of the restrictive covenants and certain events of default contained in the notes and the indenture.

Credit Agreement Amendment

In addition to the tender offer, we refinanced our Tranche C term loan facility and decreased the maximum amount of availability under our revolving loan facility from $150.0 million to $70.0 million under our existing credit agreement through an amendment to our credit agreement. For a description of our amended credit agreement, see "Description of Certain Other Indebtedness Amended Senior Secured Credit Agreement" below.

THE EXCHANGE OFFER

Purpose of the Exchange Offer

We issued $150.0 million of the private notes on December 29, 2004 to Deutsche Bank Securities Inc., Citigroup Global Markets Inc., Lehman Brothers Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated, the initial purchasers, pursuant to a purchase agreement. The initial purchasers subsequently sold the private notes to "qualified institutional buyers," as defined in Rule 144A under the Securities Act, in reliance on Rule 144A, and outside the United States under Regulation S of the Securities Act. As a condition to the sale of the private notes, we entered into a registration rights agreement with the initial purchasers on December 29, 2004. Pursuant to the registration rights agreement, we agreed that we would:

(1) file an exchange offer registration statement with the SEC on or prior to April 28, 2005;

(2) use our commercially reasonable efforts to have the exchange offer registration statement declared effective by the SEC on or prior to July 17, 2005;

(3) keep the exchange offer open for a period of not less than the minimum period required under applicable law, but in no event for less than 20 business days; and

(4) use our commercially reasonable efforts to consummate the exchange offer on or prior to August 16, 2005.

Upon the effectiveness of the exchange offer registration statement, we will offer the exchange notes in exchange for the private notes. A copy of the registration rights agreement is filed as an exhibit to the registration statement of which this prospectus forms a part.

Resale of the Exchange Notes

Based upon an interpretation by the staff of the SEC contained in no-action letters issued to third parties, we believe that you may exchange private notes for exchange notes in the ordinary course of business. For further information on the SEC's position, see *Exxon Capital Holdings Corporation,* available May 13, 1988, *Morgan Stanley & Co. Incorporated,* available June 5, 1991 and *Shearman & Sterling,* available July 2, 1993, and other interpretive letters to similar effect. You will be allowed to resell exchange notes to the public without further registration under the Securities Act and without delivering to purchasers of the exchange notes a prospectus that satisfies the requirements of Section 10 of the Securities Act so long as you do not participate, do not intend to participate, and have no arrangement with any person to participate, in a distribution of the exchange notes. However, the foregoing does not apply to you if you are: a broker-dealer who purchased the exchange notes directly from us to resell pursuant to Rule 144A or any other available exemption under the Securities Act; or you are an "affiliate" of ours within the meaning of Rule 405 under the Securities Act.

In addition, if you are a broker-dealer, or you acquire exchange notes in the exchange offer for the purpose of distributing or participating in the distribution of the exchange notes, you cannot rely on the position of the staff of the SEC contained in the no-action letters mentioned above and must comply with the registration and prospectus delivery requirements of the Securities Act in connection with any resale transaction, unless an exemption from registration is otherwise available.

Each broker-dealer that receives exchange notes for its own account in exchange for private notes, which the broker-dealer acquired as a result of market-making activities or other trading activities, must acknowledge that it will deliver a prospectus in connection with any resale of the exchange notes. The letter of transmittal states that by so acknowledging and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an "underwriter" within the meaning of the Securities Act. A broker-dealer may use this prospectus, as it may be amended or supplemented from time to time, in connection with resales of exchange notes received in exchange for private notes which the broker-dealer acquired as a result of market-making or other trading activities.

Terms of the Exchange Offer

Upon the terms and subject to the conditions described in this prospectus and in the letter of transmittal, we will accept any and all private notes validly tendered and not withdrawn before the expiration date. We will issue $1,000 principal amount of exchange notes in exchange for each $1,000 principal amount of outstanding private notes surrendered pursuant to the exchange offer. You may tender private notes only in integral multiples of $1,000.

The form and terms of the exchange notes are the same as the form and terms of the private notes except that:

- we will register the exchange notes under the Securities Act and, therefore, the exchange notes will not bear legends restricting their transfer; and

- holders of the exchange notes will not be entitled to any of the rights of holders of private notes under the registration rights agreement, which rights will terminate upon the completion of the exchange offer.

The exchange notes will evidence the same debt as the private notes and will be issued under the same indenture, so the exchange notes and the private notes will be treated as a single class of debt securities under the indenture.

As of the date of this prospectus, $150.0 milliion in aggregate principal amount of the private notes are outstanding and registered in the name of Cede & Co., as nominee for The Depository Trust Company. Only registered holders of the private notes, or their legal representative or attorney-in-fact, as reflected on the records of the trustee under the indenture, may participate in the exchange offer. We will not set a fixed record date for determining registered holders of the private notes entitled to participate in the exchange offer.

You do not have any appraisal or dissenters' rights under the indenture in connection with the exchange offer. We intend to conduct the exchange offer in accordance with the provisions of the registration rights agreement and the applicable requirements of the Securities Act, the Securities Exchange Act of 1934, as amended, and the rules and regulations of the SEC.

We will be deemed to have accepted validly tendered private notes when, as and if we had given oral or written notice of acceptance to the exchange agent. The exchange agent will act as your agent for the purposes of receiving the exchange notes from us.

If you tender private notes in the exchange offer you will not be required to pay brokerage commissions or fees or, subject to the instructions in the letter of transmittal, transfer taxes with respect to the exchange of private notes pursuant to the exchange offer. We will pay all charges and expenses, other than the applicable taxes described below, in connection with the exchange offer.

Expiration Date; Extensions; Amendments

The term expiration date will mean 5:00 p.m., New York City time on   , 2005, unless we, in our sole discretion, extend the exchange offer, in which case the term expiration date will mean the latest date and time to which we extend the exchange offer.

To extend the exchange offer, we will:

- notify the exchange agent of any extension orally or in writing; and mail to each registered holder an announcement that will include disclosure of the approximate number of private notes deposited to date,

each before 9:00 a.m., New York City time, on the next business day after the previously scheduled expiration date.

We reserve the right, in our reasonable discretion:

to delay accepting any private notes:

to extend the exchange offer; or

if any conditions listed below under " Conditions" are not satisfied, to terminate the exchange offer by giving oral or written notice of the delay, extension or termination to the exchange agent.

We will follow any delay in acceptance, extension or termination as promptly as practicable by oral or written notice to the registered holders. If we amend the exchange offer in a manner we determine constitutes a material change, we will promptly disclose the amendment in a prospectus supplement that we will distribute to the registered holders. We will also extend the exchange offer for a period of five to ten business days, depending upon the significance of the amendment and the manner of disclosure, if the exchange offer would otherwise expire during the five to ten business day period.

Interest on the Exchange Notes

The exchange notes will bear interest at the same rate and on the same terms as the private notes. Consequently, the exchange notes will bear interest at a rate equal to $7^{1}/_{4}$% per annum (calculated using a 360-day year). Interest will be payable semi-annually on each June 15 and December 15, commencing June 15, 2005.

You will receive interest on June 15, 2005 from the date of initial issuance of the exchange notes, plus an amount equal to the accrued interest on the private notes from December 29, 2004 to the date of exchange. We will deem the right to receive any interest accrued on the private notes waived by you if we accept your private notes for exchange.

Procedures for Tendering

You may tender private notes in the exchange offer only if you are a registered holder of private notes. To tender in the exchange offer, you must:

complete, sign and date the letter of transmittal or a facsimile of the letter of transmittal;

have the signatures guaranteed if required by the letter of transmittal; and

mail or otherwise deliver the letter of transmittal or the facsimile to the exchange agent at the address listed below under " Exchange Agent" for receipt before the expiration date.

In addition, either:

the exchange agent must receive certificates for the private notes along with the letter of transmittal into its account at the depositary pursuant to the procedure for book-entry transfer described below before the expiration date;

the exchange agent must receive a timely confirmation of a book-entry transfer of the private notes, if the procedure is available, into its account at the depositary pursuant to the procedure for book-entry transfer described below before the expiration date; or you must comply with the guaranteed delivery procedures described below.

Your tender, if not withdrawn before the expiration date, will constitute an agreement between you and us in accordance with the terms and subject to the conditions described in this prospectus and in the letter of transmittal.

The method of delivery of private notes and the letter of transmittal and all other required documents to the exchange agent is at your election and risk. We recommend that instead of delivery by mail, you use an overnight or hand delivery service, properly insured. In all cases, you should allow sufficient time to assure delivery to the exchange agent before the expiration date. You should not send letters of transmittal or private notes to us. You may request your respective brokers, dealers, commercial banks, trust companies or nominees to effect the transactions described above for you.

If you are a beneficial owner of private notes whose private notes are registered in the name of a broker, dealer, commercial bank, trust company or other nominee and you wish to tender your notes, you should contact the registered holder promptly and instruct the registered holder to tender on your behalf. If you wish to tender on your own behalf, before completing and executing the letter of transmittal and delivering the private notes you must either:

- make appropriate arrangements to register ownership of the private notes in your name; or

- obtain a properly completed bond power from the registered holder.

The transfer of registered ownership may take considerable time. Unless the private notes are tendered:

(1) by a registered holder who has not completed the box entitled "Special Issuance Instructions" or the box entitled "Special Delivery Instructions" on the letter of transmittal; or

(2) for the account of: a member firm of a registered national securities exchange or of the National Association of Securities Dealers, Inc.; a commercial bank or trust company having an office or correspondent in the United States; or an "eligible guarantor institution" within the meaning of Rule 17Ad-15 under the Exchange Act that is a member of one of the recognized signature guarantee programs identified in the letter of transmittal,

an eligible guarantor institution must guarantee the signatures on a letter of transmittal or a notice of withdrawal described below under "Withdrawal of Tenders."

If the letter of transmittal is signed by a person other than the registered holder, the private notes must be endorsed or accompanied by a properly completed bond power, signed by the registered holder as the registered holder's name appears on the private notes.

If the letter of transmittal or any private notes or bond powers are signed by trustees, executors, administrators, guardians, attorneys-in-fact, officers of corporations or others acting in a fiduciary or representative capacity, they should so indicate when signing, and unless waived by us, they must submit evidence satisfactory to us of their authority to so act with the letter of transmittal.

The exchange agent and the depositary have confirmed that any financial institution that is a participant in the depositary's system may utilize the depositary's Automated Tender Offer Program to tender notes.

We will determine in our sole discretion all questions as to the validity, form, eligibility, including time of receipt, acceptance and withdrawal of tendered private notes, which determination will be final and binding. We reserve the absolute right to reject any and all private notes not properly tendered or any private notes our acceptance of which would, in the opinion of our counsel, be unlawful. We also reserve the right to waive any defects, irregularities or conditions of tender as to particular private notes. Our interpretation of the terms and conditions of the exchange offer, including the instructions in the letter of transmittal, will be final and binding on all parties. Unless waived, you must cure any defects or irregularities in connection with tenders of private notes within the time we determine.

Although we intend to notify you of defects or irregularities with respect to tenders of private notes, neither we, the exchange agent nor any other person will incur any liability for failure to give you that notification. Unless waived, we will not deem tenders of private notes to have been made until you cure the defects or irregularities.

While we have no present plan to acquire any private notes that are not tendered in the exchange offer or to file a registration statement to permit resales of any private notes that are not tendered in the exchange offer, we reserve the right in our sole discretion to purchase or make offers for any private notes that remain outstanding after the expiration date. We also reserve the right to terminate the exchange offer, as described below under " Conditions," and, to the extent permitted by applicable law, purchase private notes in the open market, in privately negotiated transactions or otherwise. The terms of any of those purchases or offers could differ from the terms of the exchange offer.

If you wish to tender private notes in exchange for exchange notes in the exchange offer, we will require you to represent that:

- you are not an affiliate of ours;
- you will acquire any exchange notes in the ordinary course of your business; and
- at the time of completion of the exchange offer, you have no arrangement with any person to participate in the distribution of the exchange notes.

In addition, in connection with the resale of exchange notes, any participating broker-dealer who acquired the private notes for its own account as a result of market-making or other trading activities must deliver a prospectus meeting the requirements of the Securities Act. The SEC has taken the position that participating broker-dealers may fulfill their prospectus delivery requirements with respect to the exchange notes, other than a resale of an unsold allotment from the original sale of the notes, with this prospectus.

Return of Notes

If we do not accept any tendered private notes for any reason described in the terms and conditions of the exchange offer or if you withdraw or submit private notes for a greater principal amount than you desire to exchange, we will return the unaccepted, withdrawn or non-exchanged notes without expense to you as promptly as practicable. In the case of private notes tendered by book-entry transfer into the exchange agent's account at the depositary pursuant to the book-entry transfer procedures described below, we will credit the private notes to an account maintained with the depositary as promptly as practicable.

Book Entry Transfer

The exchange agent will make a request to establish an account with respect to the private notes at the depositary for purposes of the exchange offer within two business days after the date of this prospectus, and any financial institution that is a participant in the depositary's systems may make book-entry delivery of private notes by causing the depositary to transfer the private notes into the exchange agent's account at the depositary in accordance with the depositary's procedures for transfer. However, although delivery of private notes may be effected through book-entry transfer at the depositary, you must transmit and the exchange agent must receive, the letter of transmittal or a facsimile of the letter of transmittal, with any required signature guarantees and any other required documents, at the address below under " Exchange Agent" on or before the expiration date or pursuant to the guaranteed delivery procedures described below.

Guaranteed Delivery Procedures

If you wish to tender your private notes and (1) the notes are not immediately available or (2) you cannot deliver the private notes, the letter of transmittal or any other required documents to the exchange agent before the expiration date, you may effect a tender if:

(1) the tender is made through an eligible guarantor institution;

(2) before the expiration date, the exchange agent receives from the eligible guarantor institution a properly completed and duly executed notice of guaranteed delivery, substantially in the form provided by us, that: states your name and address, the certificate number(s) of the private notes and the principal amount of private notes tendered, states that the tender is being made by that notice of guaranteed delivery, and guarantees that, within three New York Stock Exchange trading days after the date of execution of the notice of guaranteed delivery, the eligible guarantor institution will deposit with the exchange agent the letter of transmittal, together with the certificate(s) representing the private notes in proper form for transfer or a confirmation of a book-entry transfer, as the case may be, and any other documents required by the letter of transmittal; and

(3) within three New York Stock Exchange trading days after the date of execution of the notice of guaranteed delivery, the exchange agent receives a properly executed letter of transmittal, as well as the certificate(s) representing all tendered private notes in proper form for transfer and all other documents required by the letter of transmittal.

Upon request, the exchange agent will send to you a notice of guaranteed delivery if you wish to tender your notes according to the guaranteed delivery procedures described above.

Withdrawal of Tenders

Except as otherwise provided in this prospectus, you may withdraw tenders of private notes at any time before 5:00 p.m. on the expiration date.

To withdraw a tender of private notes in the exchange offer, the exchange agent must receive a written or facsimile transmission notice of withdrawal at its address listed in this prospectus before the expiration date. Any notice of withdrawal must:

- specify the name of the person who deposited the private notes to be withdrawn;
- identify the private notes to be withdrawn, including the certificate number(s) and principal amount of the private notes; and
- be signed in the same manner as the original signature on the letter of transmittal by which the private notes were tendered, including any required signature guarantees.

We will determine in our sole discretion all questions as to the validity, form and eligibility of the notices, and our determination will be final and binding on all parties. We will not deem any properly withdrawn private notes to have been validly tendered for purposes of the exchange offer, and we will not issue exchange notes with respect to those private notes, unless you validly retender the withdrawn private notes. You may retender properly withdrawn private notes by following one of the procedures described above under " Procedures for Tendering" at any time before the expiration date.

Conditions

Notwithstanding any other term of the exchange offer, we will not be required to accept for exchange, or exchange the exchange notes for, any private notes, and may terminate the exchange offer as provided in this prospectus before the acceptance of the private notes, if, in our reasonable judgment, the exchange offer violates applicable law, rules or regulations or an applicable interpretation of the staff of the SEC.

If we determine in our reasonable discretion that any of these conditions are not satisfied, we may:

- refuse to accept any private notes and return all tendered private notes to you;
- extend the exchange offer and retain all private notes tendered before the exchange offer expires, subject, however, to your rights to withdraw the private notes; or
- waive the unsatisfied conditions with respect to the exchange offer and accept all properly tendered private notes that have not been withdrawn.

If the waiver constitutes a material change to the exchange offer, we will promptly disclose the waiver by means of a prospectus supplement that we will distribute to the registered holders of the private notes, and we will extend the exchange offer for a period of five to ten business days, depending upon the significance of the waiver and the manner of disclosure to the registered holders, if the exchange offer would otherwise expire during the five to ten business day period.

Termination of Rights

All of your rights under the registration rights agreement will terminate upon consummation of the exchange offer except with respect to our continuing obligations:

- to indemnify you and parties related to you against liabilities, including liabilities under the Securities Act; and
- to provide, upon your request, the information required by Rule 144A(d)(4) under the Securities Act to permit resales of the notes pursuant to Rule 144A.

Shelf Registration

If:

- the exchange offer is not permitted by applicable law or applicable interpretation of the staff of the SEC;
- any holder of transfer restricted securities notifies us within 20 business days after the date that the exchange offer is consummated that any of the following apply:
  - such holder was prohibited by law or SEC policy from participating in the exchange offer;
  - such holder is unable to resell the exchange notes to the public without delivering a prospectus and the prospectus in the exchange offer registration statement is not available;
  - such holder is a broker-dealer under the Securities Exchange Act of 1934 and holds outstanding notes acquired directly from us or any of our affiliates;

we will use our commercially reasonable efforts to cause the SEC to declare effective a shelf registration statement with respect to the resale of the transfer restricted securities by holders who satisfy certain conditions relating to the provision of information in connection with the shelf registration statement. We will use our commercially reasonable efforts to keep the statement effective for at least two years after the effective date of the shelf registration statement or such shorter period, which shall terminate when all the transfer restricted securities covered by the registration statement have been sold pursuant to the registration statement.

For purposes of these shelf registration provisions and the liquidated damages provisions described below, "transfer restricted securities" means each private notes until the earliest to occur of:

- the date on which the note is exchanged in the exchange offer and entitled to be resold to the public by the note's holder without complying with the prospectus delivery requirements of the Securities Act;
- the date on which the note has been disposed of in accordance with a shelf registration statement;
- the date on which the note is distributed to the public pursuant to Rule 144 under the Securities Act; or
- the date on which the note is disposed of by a broker-dealer pursuant to the plan of distribution contemplated by this prospectus (including the prospectus delivery obligation contained in the plan of distribution).

Liquidated Damages

If:

(1) we fail to file any of the registration statements required by the registration rights agreement on or before the date specified for such filing; or

(2) any of these registration statements is not declared effective by the SEC on or prior to the date specified for effectiveness; or

(3) we fail to consummate the exchange offer on or prior to the date specified for consummating it; or

(4) the shelf registration statement or the exchange offer registration statement is declared effective but thereafter ceases to be effective or usable during the periods specified in the registration rights agreement (each such event referred to in clauses (1) through (4) above, a "registration default");

then we will pay liquidated damages to each holder of transfer restricted securities affected by the registration default. Liquidated damages will accrue, at an annual rate of 0.25% of the aggregate principal amount of the transfer restricted securities on the date of such registration default, payable in cash semi-annually in arrears on each interest payment date, commencing on the date of such registration default. All accrued liquidated damages will be paid by Alliance on each interest payment date to the outstanding global note holder by wire transfer of immediately available funds and to holders of outstanding certificated notes by wire transfer to the accounts specified by them or by mailing checks to their registered addresses if no such accounts have been specified. Following the cure of all registration defaults, the accrual of liquidated damages will cease.

Exchange Agent

We have appointed The Bank of New York Trust Company, N.A. as exchange agent for the exchange offer. You should direct questions and requests for assistance, requests for additional copies of this prospectus or the letter of transmittal and requests for a notice of guaranteed delivery to the exchange agent addressed as follows:

The Bank of New York
Corporate Trust Operations
Reorganization Unit
101 Barclay Street, 7 East
New York, N.Y. 10286

Attn: Mrs. Carolle Montreuil

Telephone: (212)-815-5920
Fax: (212)-298-1915

Delivery to an address other than the one stated above or transmission via a facsimile number other than the one stated above will not constitute a valid delivery.

Fees and Expenses

We will bear the expenses of soliciting tenders. We are making the principal solicitation by mail; however, our officers and regular employees may make additional solicitations by facsimile, telephone or in person.

We have not retained any dealer manager in connection with the exchange offer and will not make any payments to brokers, dealers or others soliciting acceptances of the exchange offer. We will, however, pay the exchange agent reasonable and customary fees for its services and will reimburse it for its reasonable out-of-pocket expenses.

We will pay the cash expenses incurred in connection with the exchange offer which we estimate to be approximately $300,000. These expenses include registration fees, fees and expenses of the exchange agent and the trustee, accounting and legal fees and printing costs, among others.

We will pay all transfer taxes, if any, applicable to the exchange of notes pursuant to the exchange offer. If, however, a transfer tax is imposed for any reason other than the exchange of the private notes pursuant to the exchange offer, then you must pay the amount of the transfer taxes. If you do not submit satisfactory evidence of payment of the taxes or exemption from payment with the letter of transmittal, we will bill the amount of the transfer taxes directly to you.

Consequence of Failures to Exchange

Participation in the exchange offer is voluntary. We urge you to consult your financial and tax advisors in making your decisions on what action to take. Private notes that are not exchanged for exchange notes pursuant to the exchange offer will remain restricted securities. Accordingly, those private notes may be resold only:

- to a person whom the seller reasonably believes is a qualified institutional buyer in a transaction meeting the requirements of Rule 144A;
- in a transaction meeting the requirements of Rule 144 under the Securities Act;
- outside the United States to a foreign person in a transaction meeting the requirements of Rule 903 or 904 of Regulation S under the Securities Act;
- in accordance with another exemption from the registration requirements of the Securities Act and based upon an opinion of counsel if we so request;
- to us; or
- pursuant to an effective registration statement.

In each case, the private notes may be resold only in accordance with any applicable securities laws of any state of the United States or any other applicable jurisdiction.

USE OF PROCEEDS

The exchange offer is intended to satisfy an obligation under the registration rights agreement. We will not receive any cash proceeds from the exchange offer.

The net proceeds from the offering of the private notes were used, together with the incurrence of $390.0 million in aggregate principal amount of the new term loans and cash on hand, to finance the recent refinancing transactions described in "Refinancing Transactions."

CAPITALIZATION
(in thousands)

The following table sets forth our cash and cash equivalents and capitalization as of March 31, 2005. 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 amounts in the table are in thousands.

Cash and cash equivalents	$	9,100
Long-term debt, including current portion:		
Term loan facility under our credit agreement	$	384,875
$10^3/_8$% senior subordinated notes due 2011		3,541
$7^1/_4$% senior subordinated notes due 2012		150,000
Equipment debt		10,963
Total long-term debt		549,379
Stockholders' deficit:		
Preferred stock, $0.01 par value: 1,000,000 shares authorized and no shares issued and outstanding		
Common stock, $0.01 par value: 100,000,000 shares authorized, 49,211,896 shares issued and outstanding		492
Paid-in-capital deficit		(14,540)
Accumulated other comprehensive income (loss)		2,467
Accumulated deficit		(45,807)
Total stockholders' deficit		(57,388)
Total capitalization	$	491,991

SELECTED HISTORICAL FINANCIAL INFORMATION AND OTHER DATA
(in thousands, except per share data)

The historical selected financial data shown below for, and as of the end of, each of the years in the five-year period ended December 31, 2004, have been derived from our consolidated financial statements. The statement of operations data for the years ended December 31, 2002, 2003 and 2004 and the balance sheet data at December 31, 2003 and 2004 have been derived from consolidated financial statements, which have been audited and which are included in this prospectus. The statement of operations data for the years ended December 31, 2000 and 2001 and the balance sheet data at December 31, 2000, 2001 and 2002 have been derived from our audited consolidated financial statements, which are not included in this prospectus. The statement of operations data for the three months ended March 31, 2004 and 2005 have been derived from unaudited consolidated financial statements which are included in this prospectus. Our unaudited consolidated financial statements for the three months ended March 31, 2004 and 2005 include, in the opinion of management, all adjustments consisting of normal recurring adjustments, necessary for a fair presentation of the results for the period. The 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.

	Year Ended December 31,					Three Months Ended March 31,	
	2000	2001	2002	2003	2004	2004	2005
	(dollars in thousands)						
Consolidated Statements of Operations Data:							
Revenues	$ 341,497	$ 372,676	$ 408,530	$ 413,553	$ 432,080	$ 105,646	$ 105,964
Costs and expenses:							
Cost of revenues, excluding depreciation and amortization	151,722	162,190	184,050	198,456	217,605	53,272	53,936
Selling, general and administrative expenses	37,975	43,944	45,822	47,472	48,142	12,168	11,686
Employment agreement costs				2,446	2,064	305	274
Severances and related costs	4,573			2,246	1,223		
Loss on early retirement of debt		3,734			44,393		
Impairment charges				73,225			
Recapitalization, merger integration, and regulatory costs	4,523						
Depreciation expense	54,924	63,761	69,384	77,675	80,488	20,845	20,463
Amortization expense	14,390	14,454	2,502	2,897	3,522	876	881
Interest expense, net	77,051	65,651	47,705	43,589	44,039	10,608	9,061
Other (income) and expense, net			(872)	(200)	(484)	34	(332)
Total costs and expenses	345,158	353,734	348,591	447,806	440,992	98,108	95,969
Income (loss) before income taxes, minority interest expense and earnings from uncosolidated investees	(3,661)	18,942	59,939	(34,253)	(8,912)	7,538	9,995
Income tax expense (benefit)	1,969	9,968	25,495	(1,680)	(6,770)	3,106	4,132
Minority interest expense	363	984	2,008	1,686	2,373	785	412
Earnings from unconsolidated investees	(3,790)	(2,540)	(3,503)	(2,649)	(4,029)	(893)	(684)
Net income (loss)	$ (2,203)	$ 10,530	$ 35,939	$ (31,610)	$ (486)	$ 4,540	$ 6,135

	Year Ended December 31,					Three Months Ended March 31,	
Ratio of earnings to fixed charges(1)	1.0x	1.3x	2.2x			1.4x	1.7x
Consolidated Balance Sheet Data (at end of period):							
Cash and cash equivalents	$ 12,971	$ 22,051	$ 31,413	$ 20,931	$ 20,721	$ 30,156	$ 9,100
Total assets	646,160	658,232	687,404	628,176	622,198	646,434	608,004
Long-term debt, including current maturities	758,989	655,961	608,862	581,247	575,664	579,980	549,379
Stockholders' deficit	(203,809)	(80,857)	(42,309)	(70,798)	(67,528)	(66,104)	(57,388)

(1) The ratio of earnings to fixed charges is computed by dividing earnings by fixed charges. For the purpose of calculating the ratio of earnings to fixed charges, earnings are defined as income (loss) before income taxes, plus minority interest expense, plus distributions from unconsolidated 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 $31.7 million and $6.2 million for the years ended December 31, 2003 and 2004, respectively.

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under the heading "Disclosure Regarding Forward-Looking Statements" and "Risk Factors" and elsewhere in this prospectus. The following discussion should be read in conjunction with our consolidated financial statements and related notes thereto included elsewhere in this prospectus.

Overview

We are a leading national provider of shared-service and fixed-site diagnostic imaging services, based upon annual revenue and number of diagnostic imaging systems deployed. Our principal sources of revenue are derived from magnetic resonance imaging (MRI) and positron emission tomography and positron emission tomography/computed tomography (PET and PET/CT) services on a shared-service and full-time basis primarily in partnership with hospitals or health systems. We also provide services through a growing number of free-standing imaging centers. In the first quarter of 2005, MRI services and PET and PET/CT services generated 70% and 21% of our revenues, respectively. The remaining net revenue was comprised of other diagnostic imaging services revenue, primarily computed tomography (CT), and management contract revenue. We provide imaging services primarily to hospitals and other healthcare providers. Our services normally include the use of our imaging systems, technologists to operate the systems, equipment maintenance and upgrades and management of day-to-day operations. We had 466 diagnostic imaging systems, including 354 MRI systems and 56 PET or PET/CT systems and served over 1,000 clients in 43 states at December 31, 2004. Of these 466 diagnostic imaging systems, 62 were located in fixed-sites, which constitutes systems installed in hospitals or other buildings on hospital campuses, medical groups' offices, or medical buildings and retail sites. Of these fixed-sites, 54 were included in our MRI systems count.

Approximately 87% of our revenues for the quarter ended March 31, 2005 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. The contracts' initial terms average approximately three years in length for mobile services and approximately seven to ten years in length for fixed-site arrangements. These contracts often contain automatic renewal provisions and certain contracts have cancellation clauses if the hospital or other healthcare provider purchases their own system. We price our contracts based on the type of system used, the scan volume, and the number of ancillary services provided. Pricing is also affected by competitive pressures.

In November 2004, the Centers for Medicare and Medicaid Services announced a 21% reduction in PET hospital reimbursement rates effective January 1, 2005. Although the effect of this rate reduction to date has not had a material adverse effect on our PET or PET/CT revenue, this could have a significant negative impact on our PET and PET/CT revenues in the future. Our healthcare provider clients on whom we depend for the majority of our PET and PET/CT revenues generally rely on reimbursement from Medicare and other third-party payors. Because unfavorable reimbursement policies may constrict the profit margins of the hospitals and other healthcare providers we bill directly, we may need to lower our fees to retain existing PET and PET/CT clients and attract new ones.

Approximately 13% of our revenues for the year ended March 31, 2005 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.

Revenues from our fixed-sites are included in both our wholesale and retail revenues.

The principal components of our cost of revenues are compensation paid to technologists and drivers, system maintenance costs, medical supplies, system transportation and technologists' travel costs. Because a majority of these expenses are fixed, increased revenues 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 and marketing costs, corporate overhead costs, provision for doubtful accounts, and non-cash stock based compensation expense.

We record minority interest expense and earnings from unconsolidated investees related to our consolidated and unconsolidated subsidiaries, respectively. These subsidiaries primarily provide shared-service and fixed-site diagnostic imaging services.

Prior to 2004, MRI industry-wide scan volumes were adversely affected by relatively flat hospital growth rates of outpatient procedures and inpatient admissions. In addition, the increase in patient co-payments, higher patient deductibles, and the uncertain U.S. employment climate contributed to lower MRI industry-wide scan volumes. In 2004, MRI industry-wide scan volumes returned to a more normal growth rate primarily due to improved hospital growth rates of outpatient procedures and inpatient admissions.

Prior to 2004, we began to see an increase in the competitive climate in the MRI industry, resulting in an increase in activity by original equipment manufacturers, or OEM's, selling systems directly to certain of our clients. Typically, OEM's target our higher scan volume clients. This has caused an increase in the number of our higher scan volume clients deciding not to renew their contracts. We replace these higher volume scan clients typically with lower volume clients. During 2005, our MRI revenues modestly declined compared to 2004 levels and we believe that MRI revenues will continue to modestly decline in future years.

This decline in MRI revenue prior to 2004 triggered an acceleration of the review of the recoverability of the carrying value of certain equipment, goodwill, and other intangible assets according to the provisions of Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144") and Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). Due to the factors noted above, in 2003 we recognized a non-cash impairment charge totaling $73.2 million associated with goodwill and other intangible assets and certain equipment in accordance with the provisions of SFAS 142 and 144, and an impairment of an investment in a joint venture, the components of which are described in more detail below.

Because of the factors noted above, in 2003, we engaged an independent appraiser to assist us in evaluating potential impairment of identified intangible assets in accordance with SFAS 144. Based upon this study, we determined that certain intangible assets acquired in May 1998 were impaired, and recorded a charge of $0.8 million to two of our reporting units in order to properly record these assets at fair market value as a component of the total non-cash impairment charge described above. Fair market value was determined based on discounted cash flows.

In 2003, we also evaluated the recoverability of the carrying amount of certain long-lived assets, specifically our 1.0 Tesla and 0.2 Tesla MRI systems, as a result of the decline in client demand for these systems in accordance with SFAS 144. An impairment is assessed when the undiscounted expected future cash flow derived from the asset is less than its carrying amount. We used our best judgment based upon the most current facts and circumstances when applying these impairment rules. Based upon the analysis performed on the 1.0 Tesla and 0.2 Tesla MRI systems, an impairment loss of $22.8 million was recognized to reduce certain of these impaired assets to their fair market value as of September 30, 2003 as a component of the total non-cash impairment charge described above. Fair market value was based upon quoted market prices. We revised our estimate of residual values on all of our MRI equipment from 20% to 10%. In addition, we also changed our estimate of useful lives of 1.5 Tesla MRI systems from 8 years to 7 years. These changes in estimates were recognized beginning in the fourth quarter of 2003 and will be recognized on a prospective basis.

In addition, in 2003 we reviewed the recoverability of the carrying value of goodwill based on our judgment that an event had occurred or circumstances had changed to indicate an impairment of these assets had possibly occurred in accordance with SFAS 142. Goodwill is allocated to our various reporting units which represent our geographical regions. We compare the fair value of the reporting unit to our carrying amount to determine if there is potential impairment. The implied fair value for goodwill is determined based on the fair value of assets and liabilities of the respective reporting units based on discounted cash flows, market multiples, or appraised values as appropriate. In 2003, in part based upon a study prepared by an independent appraiser, we recognized a goodwill impairment charge of $41.9 million in three of our reporting units as a component of the total non-cash impairment charge described above.

We further recognized a $7.7 million impairment charge in 2003 relating to an other than temporary decline in the fair value of our investment in a joint venture as a component of the total non-cash impairment charge described above. We concluded that our investment was other than temporarily impaired because our carrying value of the investment exceeded the calculated fair value of the investment and the prospects for recovery were considered weak. The fair value of the investment was based upon our best estimate of the expected discounted future cash flows of the joint venture.

For the quarter ended March 31, 2005, we recorded $0.1 million in non-cash stock-based compensation primarily as a result of amending certain stock option agreements in June 2001 and May 2004 to reduce performance targets and granting options in November 2000 to purchase our common stock at an exercise price below its fair value. For the year ended December 31, 2004, we recorded $0.3 million in non-cash stock based compensation primarily as a result of these June 2001 option amendments and November 2000 option grants. A portion of the options granted to date under our 1999 Equity Plan are "performance options." These options vest on the eighth anniversary of the grant date if the option holder is still our employee, but the vesting accelerates if we meet the operating performance targets specified in the option agreements. On June 20, 2001, the Company's compensation committee authorized the Company to amend the option agreements under its 1999 Equity Plan to reduce the performance targets for 1,899,600 performance options out of the 2,284,000 performance options outstanding. On May 18, 2004, our compensation committee authorized us to make a second amendment to the option agreements under our 1999 Equity Plan to further reduce the performance targets for all of the 1,914,500 performance options outstanding. As a result of the amendments, if we achieve the reduced performance targets but do not achieve the previous performance targets, and an option holder terminates employment prior to the eighth anniversary of the option grant date, the Company would be required to record a non-cash stock-based compensation charge equal to the amount by which the actual value of the shares subject to the performance option on the date of the respective amendment exceeded the option's exercise price. Under the first amendment, we estimate that we could incur an additional $0.1 million to $0.4 million in the aggregate of these non-cash stock-based compensation charges over the next nine months. Under the second amendment, we estimate that we could incur an additional $0.1 million to $0.2 million in the aggregate of these non-cash stock-based compensation charges over the next 4 1/4 years. These charges, however, may not be evenly distributed over each of these respective periods or over the four quarters in any one year, depending upon the timing of employee turnover and the number of shares subject to the options held by departing employees.

At December 31, 2004, we had approximately $194.0 million of net operating losses available for federal tax purposes and $54.0 million for state tax purposes to offset future taxable income, subject to certain limitations. These net operating losses will expire at various dates from 2005 through 2024.

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, typically resulting in fewer patients being scanned during the period. Fourth quarter revenue is affected primarily by holiday and client and patient vacation schedules and inclement weather, also resulting in fewer scans during the period. The variability in margins is higher than the variability in revenues due to the fixed nature of our costs.

Results of Operations

The table below shows the components in our consolidated statements of operations as a percentage of revenues:

	Year Ended December 31,			Quarter Ended March 31,	
	2002	2003	2004	2004	2005
Revenues	100.0%	100.0%	100.0%	100.0%	100.0%
Costs and expenses:					
Cost of revenues, excluding depreciation and amortization	45.1	48.0	50.4	50.4	50.9
Selling, general and administrative expenses	11.2	11.5	11.1	11.5	11.0
Employment agreement costs		0.6	0.5	0.3	0.3
Severance and related costs		0.5	0.3		
Loss on early retirement of debt			10.3		
Impairment charges		17.7			
Depreciation expense	17.0	18.8	18.6	19.8	19.3
Amortization expense	0.6	0.7	0.8	0.8	0.8
Interest expense, net of interest income	11.7	10.5	10.2	10.1	8.6
Other (income) and expense, net	(0.2)		(0.1)		(0.3)
Total costs and expenses	85.4	108.3	102.1	92.9	90.6
Income (loss) before income taxes, minority interest expense and earnings from unconsolidated investees	14.6	(8.3)	(2.1)	7.1	9.4
Income tax expense (benefit)	6.2	(0.4)	(1.6)	2.9	3.9
Minority interest expense	0.5	0.4	0.5	0.7	0.4
Earnings from unconsolidated investees	(0.8)	(0.7)	(0.9)	(0.8)	(0.7)
Net income (loss)	8.7%	(7.6)%	(0.1)%	4.3%	5.8%

As noted previously, we have recently seen a decrease in our MRI revenues and we believe that scan-based MRI revenues from our shared service operations will continue to modestly decline in future years. The table below provides scan-based MRI statistical information for each of the years ended December 31 and for the three months ended March 31:

	Year Ended December 31			Three Months Ended March 31	
	2002	2003	2004	2004	2005
Scan-based MRI statistics					
Average number of scan-based MRI systems	303.8	306.4	293.0	296.1	281.9
Scans per system per day	9.78	9.46	9.67	9.50	9.45
Total number of MRI scans	873,321	828,173	812,730	202,050	191,042
Price per scan	$367.50	$361.23	$355.96	$354.33	$355.86

Over the past three years we have seen an increase in PET and PET/CT revenues and we believe that PET and PET/CT revenues will continue to increase in future years, primarily as a result of planned system additions to satisfy client demand and anticipated expansion of reimbursement coverage by Medicare and other third party payors. The table below provides PET and PET/CT revenue statistical information for each of the years ended December 31 and for the three months ended March 31:

	Year Ended December 31			Three Months Ended March 31	
	2002	2003	2004	2004	2005
PET and PET/CT statistics					
Average number of PET and PET/CT systems	22.3	34.5	48.8	44.9	50.3
Scans per system per day	4.62	4.84	4.97	5.03	5.18
Total number of PET and PET/CT scans	22,411	40,969	56,714	13,308	15,784
Price per scan	$ 1,327.67	$ 1,348.17	$ 1,363.65	$ 1,324.66	$ 1,370.94

Following are the components of revenue for each of the years ended December 31 and for the three months ended March 31 (in millions):

	Year Ended December 31,			Three Months Ended March 31,	
	2002	2003	2004	2004	2005
Total MRI revenue	$ 344.5	$ 321.8	$ 315.9	$ 77.9	$ 74.7
PET and PET/CT revenue	29.9	55.9	77.5	17.7	21.8
Other modalities and other revenue	34.1	35.9	38.7	10.0	9.5
Total	$ 408.5	$ 413.6	$ 432.1	105.6	$ 106.0

Quarter Ended March 31, 2005 Compared to Quarter Ended March 31, 2004

Revenue increased $0.4 million, or 0.3%, to $106.0 million in the first quarter of 2005 compared to $105.6 million in the first quarter of 2004 primarily due to higher PET and PET/CT revenue, offset by lower MRI revenue and other modalities and other revenue. PET and PET/CT revenue in the first quarter of 2005 increased $4.1 million, or 23.2%, compared to the first quarter of 2004. Total PET and PET/CT scan volumes increased 18.6% to 15,784 scans in the first quarter of 2005 from 13,308 scans in the first quarter of 2004, primarily as a result of an increase in the average number of PET and PET/CT systems in operation. The average number of PET and PET/CT systems in service increased to 50.3 systems in the first quarter of 2005 from 44.9 systems in the first quarter of 2004. Scans per system per day also increased 3.0%, to 5.18 scans per system per day in the first quarter of 2005, from 5.03 in the first quarter of 2004. Further, the average price per PET and PET/CT scan increased 3.5% to $1,371 per scan in the first quarter of 2005 compared to $1,325 per scan in the first quarter of 2004. MRI revenue in the first quarter of 2005 decreased $3.2 million, or 4.1%, compared to the first quarter of 2004 primarily as a result of a 5.5% decrease in our MRI scan volume. MRI scan volume decreased to 191,042 scans in the first quarter of 2005 from 202,050 scans in the first quarter of 2004, primarily due to a decrease in the average number of scan-based systems in service, to 281.9 systems in the first quarter of 2005 from 296.1 systems in the first quarter of 2004. Average scans per system per day also decreased by 0.5% to 9.45 in first quarter of 2005 from 9.50 in first quarter of 2004. These decreases were partially offset by a 0.4% increase in average price per MRI scan to $355.86 per scan in first quarter of 2005 compared to $354.33 per scan in first quarter of 2004 and a $0.4 million increase in non-scan based MRI revenue. Other modalities and other revenue decreased $0.5 million, or 5.7%, to $9.5 million in the first quarter of 2005 compared to $10.0 million in the first quarter of 2004 primarily due to a decrease in CT revenue offset by an increase in management contract revenue for our managed contracts and reimbursement of out-of-pocket expenses for unconsolidated investees.

We had 354 MRI systems at March 31, 2005 compared to 363 MRI systems at March 31, 2004. We had 56 PET and PET/CT systems at March 31, 2005 compared to 48 PET and PET/CT systems at March 31, 2004.

Cost of revenues, excluding depreciation and amortization, increased $0.6 million, or 1.2%, to $53.9 million in the first quarter of 2005 compared to $53.3 million in the first quarter of 2004. Management contract expenses increased $0.7 million, or 32.1%, primarily as a result of an increase in expenses incurred on behalf of unconsolidated investees. Equipment rental expense increased $0.6 million, or 125%, primarily due to a higher number of MRI rental systems in use. Systems maintenance costs increased $0.3 million, or 3.3%, primarily due to an increase in the number of PET and PET/CT systems which have higher contracted maintenance costs per system. Compensation and related employee expenses decreased $0.2 million, or 0.9%, primarily as a result of a decrease in field management, employee expenses and travel and entertainment. The decrease was partially offset by an increase in employee benefits and an increase in technologists' wages, including an increase in payroll and related costs necessary to support new PET and PET/CT systems in operation. PET and PET/CT technologists have a higher hourly rate than MRI technologists. Medical supplies decreased $0.2 million, or 5.2%, primarily as a result of a decrease in film expense related to purchasing agreement rebates. Outside medical services decreased $0.4 million, or 14.2%, primarily as a result of a decrease in staffing of temporary technologists. All other cost of revenues, excluding depreciation and amortization, decreased $0.2 million, or 3.2%. Cost of revenues, as a percentage of revenue, increased to 50.9% in the first quarter of 2005 from 50.4% in the first quarter of 2004 as a result of the factors described above.

Selling, general and administrative expenses decreased $0.5 million, or 4.0%, to $11.7 million in the first quarter of 2005 compared to $12.2 million in the first quarter of 2004. Compensation and related employee expenses decreased $0.3 million, or 3.5%, primarily due to decreased costs associated with the consolidation of our regions from ten regions to five regions and a decrease in management incentive compensation and travel and entertainment. The provision for doubtful accounts decreased $0.1 million, or 9.2%. The provision for doubtful accounts as a percentage of revenue was 0.4% for both the first quarter of 2005 and 2004. All other selling, general and administrative expenses decreased $0.1 million, or 4.3%. Selling, general and administrative expenses as a percentage of revenue were 11.0% and 11.5% in the first quarter of 2005 and 2004, respectively.

We recorded employment agreement expenses of $0.3 million in both the first quarter of 2005 and 2004 related to payments under an amendment to an employment agreement with our former chairman of the board. We expect to incur approximately $0.2 million of costs over the remaining 2-month term of the amended employment agreement with our former chairman of the board.

Depreciation expense decreased $0.3 million, or 1.8%, to $20.5 million in the first quarter of 2005 compared to $20.8 million in the first quarter of 2004.

Amortization expense for both the first quarter of 2005 and 2004 totaled $0.9 million.

Interest expense, net, decreased $1.5 million, or 14.6%, to $9.1 million in the first quarter of 2005 compared to $10.6 million in the first quarter of 2004. This decrease was primarily a result of lower average interest rates on our senior subordinated notes which were refinanced in December 2004 and lower average interest rates on our variable rate term loans primarily resulting from execution of various interest rate swap agreements in 2004 to hedge against future interest rate increases on a portion of our variable rate term loans.

Income tax expense was $4.1 million and $3.1 million in the first quarter of 2005 and 2004, respectively, resulting in effective tax rates of 40.2% and 40.6%. Our effective tax rates were higher than statutory rates principally as a result of state income taxes.

Minority interest expense decreased $0.4 million, or 47.6%, to $0.4 million in the first quarter of 2005 compared to $0.8 million in the first quarter of 2004.

Earnings from unconsolidated investees decreased by $0.2 million, or 23.4%, to $0.7 million in the first quarter of 2005 compared to $0.9 million in the first quarter of 2004, primarily due to net losses in 2005 from newly formed unconsolidated investees.

Our net income was $6.1 million, or $0.12 per share on a diluted basis, in the first quarter of 2005 compared to $4.5 million, or $0.09 per share on a diluted basis, in the first quarter of 2004.

Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

Revenue increased $18.5 million, or 4.5%, to $432.1 million in 2004 compared to $413.6 million in 2003 primarily due to higher PET and PET/CT revenue and higher other modalities and other revenue, offset by lower MRI revenue. PET and PET/CT revenue in 2004 increased $21.6 million, or 38.7%, compared to 2003 primarily due to an increase in the number of PET and PET/CT systems in service, to 48.8 systems in 2004 from 34.5 systems in 2003. The increase in average number of systems in 2004 over 2003 resulted in a 38.4% increase in total scan volume, to 56,714 scans in 2004 from 40,969 scans in 2003. Scans per system per day also increased 2.7%, to 4.97 scans per system per day in 2004, from 4.84 in 2003. Further, the average price per PET and PET/CT scan increased 1.1% to $1,363.15 per scan in 2004 compared to $1,348.17 per scan in 2003. Other modalities and other revenue increased $2.8 million, or 7.8%, to $38.7 million in 2004 compared to $35.9 million in 2003 primarily due to an increase in management contract revenue for our managed contracts and reimbursement of out-of-pocket expenses for unconsolidated joint ventures. MRI revenue in 2004 decreased $5.9 million, or 1.8%, compared to 2003 primarily as a result of a 1.9% decrease in our MRI scan volume and a 1.5% decrease in the average price per MRI scan. MRI scan volume decreased to 812,730 scans in 2004 from 828,173 scans in 2003, primarily due to a decrease in the average number of scan-based systems in service, to 293.0 systems in 2004 from 306.4 systems in the 2003, partially offset by an increase of 2.3% in the average scans per system per day to 9.67 in 2004 from 9.46 in 2003. Average price per MRI scan decreased to $355.96 per scan in 2004 compared to $361.23 per scan in the corresponding period of 2003 primarily as a result of price reductions granted to certain clients upon renewal of their contracts and competitive pricing pressures. The decrease in total MRI revenue was offset by an increase in non-scan based MRI revenue.

We had 362 MRI systems at December 31, 2004 compared to 363 MRI systems at December 31, 2003. We had 54 PET and PET/CT systems at December 31, 2004 compared to 44 PET and PET/CT systems at December 31, 2003. The PET and PET/CT increase was primarily a result of planned system additions to satisfy client demand.

Cost of revenues increased $19.1 million, or 9.6%, to $217.6 million in 2004 compared to $198.5 million in 2003. Compensation and related employee expenses increased $7.7 million, or 7.7%, primarily as a result of an increase in field management and technologists' wage rates, including a $2.5 million increase in payroll related costs necessary to support new PET and PET/CT systems in operation whose technologists have a higher hourly rate than MRI technologists and a $2.5 million increase in employee benefits, including workers' compensation expense. The 31.5% increase in employee headcount to support the new PET and PET/CT systems in operation were partially offset by a 2.6% decrease in the number of employees necessary to support current MRI systems and a 5.1% decrease in the number of drivers primarily due to a decrease in the number of power units in service. Systems maintenance costs increased $4.2 million, or 10.6%, primarily due to an increase in the number of PET and PET/CT systems which have higher contracted preventative maintenance costs per system. Medical supplies increased $2.3 million, or 15.2%, primarily as a result of an increase in PET and PET/CT scan volume, which use a radiopharmaceutical as a component of the scan. Management contract expenses increased $1.9 million, or 26.2%, primarily as a result of an increase in expenses incurred on behalf of unconsolidated joint ventures. Licenses, taxes and fees increased $1.1 million, or 37.9%, primarily as a result of an increase in property taxes associated with the purchase of 12 PET/CT systems in 2004, which have a higher average property value then MRI systems. Outside medical services increased $1.1 million, or 14.4%, primarily as a result of an increase in outside radiologists service costs associated with an increase in retail revenue. All other operating expenses, excluding depreciation, increased $0.8 million, or 3.1%, primarily due to the increase in the number of systems in service. Cost of revenues, as a percentage of revenue, increased to 50.4% in 2004 from 48.0% in 2003 as a result of the factors described above.

Selling, general and administrative expenses increased $0.6 million, or 1.4%, to $48.1 million in 2004 compared to $47.5 million in 2003. Compensation and related employee expenses increased $4.2 million, or 14.9%, primarily due to increased costs as a result of changes in the management infrastructure, recruiting costs and an increase in management incentive compensation. This increase was offset by a decrease in the provision for doubtful accounts of $2.0 million, or 71.5% resulting from collection of older accounts receivable in 2004 billed in prior years and higher collections of 2004 revenues. The provision for doubtful accounts decreased as a percentage of revenue to 0.2% of revenue in 2004 compared to 0.7% of revenue in the corresponding period of 2003. Non-cash stock based compensation decreased $1.4 million, or 82.4%, to $0.3 million in 2004 from $1.7 million in 2003, primarily due to decreased costs associated with our amended stock option agreements. All other selling, general and administrative expenses decreased $0.2 million, or 1.2%. Selling, general and administrative expenses as a percentage of revenue were 11.1% and 11.5% in 2004 and 2003, respectively.

We recorded employment agreement expenses of $2.1 million in 2004 related to an employment agreement with our former chief financial officer and payments under an amendment to an employment agreement with our former chairman of the board. We recorded employment agreement expenses of $2.4 million in 2003 related to payments under an amendment to an employment agreement with our former chairman of the board. We expect to incur approximately $0.5 million of costs over the remaining 5-month term of the amended employment agreement with our former chairman of the board.

We recorded severance and related costs of $1.2 million in 2004 primarily for severance costs associated with reductions-in-force due to our reduction in the number of geographic regions and a further consolidation of our retail billing and scheduling functions. We recorded severance and related costs of $2.2 million in 2003 primarily related to severance and settlement payments made as a result of reductions-in-force.

We recorded a loss on early retirement of debt of $44.4 million in 2004 related to the refinancing of our $10^3/_8$% Notes and our credit facility. This charge primarily consisted of tender offer and consent payments on the $10^3/_8$% Notes, write-off of unamortized debt issuance costs related to the early extinguishment of debt, and other fees and expenses related to the redemption of the $10^3/_8$% Notes.

We recorded non-cash impairment charges of $73.2 million in 2003, related to the write down of certain MRI equipment, goodwill and other intangible assets under the provisions of SFAS 142 and SFAS 144 as these assets carried book values which exceeded their fair value, and an other than temporary decline in the fair value of our investment in a joint venture.

Depreciation expense increased $2.8 million, or 3.6%, to $80.5 million in 2004 compared to $77.7 million in 2003, principally due to an increase in the number of PET systems which have a shorter depreciable life than MRIs, as well as the change in estimate of new MRI system useful lives from eight years to seven years in the third quarter of 2003.

Amortization expense increased $0.6 million, or 21.6%, to $3.5 million in 2004 compared to $2.9 million in 2003.

Interest expense, net, increased $0.4 million, or 1.0%, to $44.0 million in 2004 compared to $43.6 million in 2003. This increase was due to higher average interest rates on our variable rate term loans primarily resulting from execution of various interest rate swap agreements in 2004 to hedge against future interest rate increases on a portion of our variable rate term loans. This increase was partially offset by a reduction in interest expense due to a lower average debt balances in 2004 compared to 2003.

In 2004, we recorded an income tax benefit of $6.8 million. We recorded a higher than statutory income tax benefit primarily due to the reversal of income tax reserves of $5.1 million primarily related to the favorable outcome of examinations of our 1998 and 1999 federal income tax returns and a favorable final IRS determination letter related to the treatment of an income item in a federal income tax return of one of our subsidiaries. In 2003, we recorded an income tax benefit of $1.7 million. We recorded a lower than statutory income tax benefit primarily because a portion of the impairment charges related to non-deductible goodwill.

Minority interest expense increased by $0.7 million, or 40.7%, to $2.4 million in 2004 compared to $1.7 million in 2003, primarily due to an increase in earnings of consolidated joint ventures.

Earnings from unconsolidated investees increased by $1.4 million, or 52.1%, to $4.0 million in 2004 compared to $2.6 million in 2003, primarily due to an increase in earnings of unconsolidated investees primarily due to increases in scan volume and the number of systems in operation.

Our net loss was $(0.5) million, or $(0.01) per share on a diluted basis in 2004 compared to net loss of $(31.6) million, or $(0.66) per share on a diluted basis in 2003.

Year Ended December 31, 2003 Compared to Year Ended December 31, 2002

Revenue increased $5.1 million, or 1.2%, to $413.6 million in 2003 compared to $408.5 million in 2002 primarily due to higher PET and PET/CT revenue, offset by lower MRI revenue. Other modalities and other revenue increased $1.8 million in 2003 compared to 2002. PET and PET/CT revenue in 2003 increased $26.0 million, or 86.8%, compared to 2002 primarily due to an increase in the number of PET and PET/CT systems in service, to 34.5 systems in 2003 from 22.3 systems in 2002. The increase in average number of systems in 2003 over 2002 resulted in an 82.8% increase in total scan volume, to 40,969 scans in 2003 from 22,411 scans in 2002. Scans per system per day also increased 4.8%, to 4.84 scans per system per day in 2003, from 4.62 in 2002. Further, the average price per PET and PET/CT scan increased 1.5% to $1,348.17 per scan in 2003 compared to $1,327.67 per scan in 2002. MRI revenue in 2003 decreased $22.7 million, or 6.6%, primarily as a result of a 5.2% decrease in our MRI scan volume and a 1.7% decrease in the average price per MRI scan. The average daily scan volume per MRI system decreased to 9.46 in 2003 from 9.78 in 2002 primarily as a result of some higher volume clients choosing not to renew their contracts and our providing more days of service to existing clients than their growth in scan volume. The average price per MRI scan decreased 1.7% to $361.23 per scan in 2003 compared to $367.50 per scan in the corresponding period of 2002 primarily as a result of price reductions granted to certain clients upon renewal of their contracts and competitive pricing pressures. Total MRI revenue also decreased due to lower short-term MRI rental revenue, which was partially offset by an increase in non-scan based MRI revenue.

We had 363 MRI systems at December 31, 2003 compared to 353 MRI systems at December 31, 2002. We had 44 PET and PET/CT systems at December 31, 2003 compared to 28 PET systems at December 31, 2002. The PET and PET/CT increase was primarily a result of planned system additions to satisfy client demand.

Cost of revenues increased $14.4 million, or 7.8%, to $198.5 million in 2003 compared to $184.1 million in 2002. Compensation and related employee expenses increased $5.6 million, or 5.9%, primarily as a result of an increase in field management and technologists' wage rates, including a $3.4 million increase in payroll related costs necessary to support new PET and PET/CT systems in operation whose technologists have a higher hourly rate than MRI technologists and a $1.8 million increase in employee benefits, including workers' compensation expense. The increase in employees to support the new PET and PET/CT systems in operation were partially offset by a 5.4% decrease in the number of employees necessary to support current MRI systems and a 4.9% decrease in the number of drivers primarily due to a decrease in the number of power units in service. Medical supplies increased $3.8 million, or 34.6%, primarily as a result of an increase in PET and PET/CT scan volume, which use a radiopharmaceutical as a component of the scan. Equipment rental expense decreased $3.5 million, or 52.7%, resulting from a lower number of MRI rental systems and power units in operation. Systems maintenance costs increased $2.3 million, or 6.2%, primarily due to an increase in the average repair cost per system and increase in the number of PET and PET/CT systems which have higher contracted preventative maintenance costs per system. Insurance expense increased $1.7 million, or 85.2%, primarily due to an increase in the total number of systems and an increase in insurance premiums. Outside medical services increased $1.6 million, or 27.0%, primarily as a result of an increase in outside radiologists services associated with an increase in retail revenue. Management contract expenses increased $0.8 million, or 12.0%, primarily as a result of an increase in expenses related to a new unconsolidated joint venture. Fuel expenses increased $0.5 million, or 15.0%, primarily due to higher diesel fuel prices in 2003. All other operating expenses, excluding depreciation, increased $1.6 million, or 9.4%, primarily due to the increase in the number of systems in service. Cost of revenues, as a percentage of revenue, increased to 48.0% in 2003 from 45.1% in 2002 as a result of the factors described above.

Selling, general and administrative expenses increased $1.7 million, or 3.6%, to $47.5 million in 2003 compared to $45.8 million in 2002. Professional services expenses increased $2.6 million, or 103% in 2003 compared to 2002 primarily due to management consulting fees and legal costs associated with the negotiation with collective bargaining representatives over the terms and conditions of employment of drivers in our Mid-Atlantic and New England regions. Compensation and related employee expenses increased $0.4 million, or 1.3%, primarily due to increases in executive management, retail scheduling and billing, and sales and marketing salaries, partially offset by a decrease in management incentive compensation. These increases were partially offset by a decrease in the provision for doubtful accounts of $1.9 million, or 40.4%, primarily as a result of an improvement in collections of older accounts receivable. The provision for doubtful accounts decreased as a percentage of revenue to 0.7% of revenue in 2003 compared to 1.2% of revenue in the corresponding period of 2002. Non-cash stock based compensation decreased $0.2 million, or 12.0%, to $1.7 million in 2003 from $1.9 million in 2002, primarily due to decreased costs associated with our amended stock option agreements. All other selling, general and administrative expenses increased $0.8 million, or 9.3%. Selling, general and administrative expenses as a percentage of revenue were 11.5% and 11.2% in 2003 and 2002, respectively.

We recorded employment agreement expenses of $2.4 million in 2003 related to payments under an amendment to an employment agreement with our former chairman of the board.

We recorded severance and related costs of $2.2 million in 2003 primarily related to severance and settlement payments made as a result of a reductions-in-force.

We recorded non-cash impairment charges of $73.2 million in 2003, related to the write down of certain MRI equipment, goodwill and other intangible assets under the provisions of SFAS 142 and SFAS 144 as these assets carried book values which exceeded their fair value, and an other than temporary decline in the fair value of our investment in a joint venture.

Depreciation expense increased $8.3 million, or 11.9%, to $77.7 million in 2003 compared to $69.4 million in 2002, principally due to a higher amount of depreciable assets associated with MRI system additions and upgrades, as well as an increase in the number of PET systems which have a shorter depreciable life than MRIs.

Amortization expense increased $0.4 million, or 15.8%, to $2.9 million in 2003 compared to $2.5 million in 2002.

Interest expense, net, decreased $4.1 million, or 8.6%, to $43.6 million in 2003 compared to $47.7 million in 2002, primarily due to lower average debt balances and lower average interest rates.

In 2003, we recorded an income tax benefit of $1.7 million, which was 5.0% of our pretax loss. We recorded a lower than statutory income tax benefit primarily because a portion of the impairment charges related to non-deductible goodwill. The provision for income taxes in 2002 was $25.5 million, resulting in an effective tax rate of 41.5%. This effective tax rate was higher than statutory rates primarily as a result of state income taxes.

Minority interest expense decreased by $0.3 million, or 16.0%, to $1.7 million in 2003 compared to $2.0 million in 2002.

Earnings from unconsolidated investees decreased by $0.9 million, or 25.4%, to $2.6 million in 2003 compared to $3.5 million in 2002, primarily due to losses incurred by a new unconsolidated investee which began providing services in April 2003.

Our net loss was $(31.6) million, or $(0.66) per share on a diluted basis in 2003 compared to net income of $35.9 million, or $0.72 per share on a diluted basis in 2002.

Liquidity and Capital Resources

Our primary source of liquidity is cash provided by operating activities. Cash provided by operating activities totaled $120.9 million for the year ended December 31, 2004 and $27.1 million in the first three months of 2005. Our ability to generate cash flow is affected by numerous factors, including demand for MRI and PET and PET/CT scans, the price we can charge our clients for providing our services and the costs to us of providing those services. Our ability to generate cash flow from operating activities is also dependent upon the collections of our accounts receivable. Provision for doubtful accounts decreased by $2.0 million in 2004 compared to 2003 primarily resulting from collection of older accounts receivable in 2004 billed in prior years and higher collections of 2004 revenues. Provision for doubtful accounts decreased by $0.1 million in the first quarter of 2005 compared to the first quarter of 2004. The number of days of revenue outstanding for our accounts receivable was 46 days as of March 31, 2004 and 2005, respectively. In addition, as of March 31, 2005, we had $64.8 million available borrowings under our revolving line of credit.

Our primary use of capital resources is to fund capital expenditures. We incur capital expenditures for the purposes of:

- purchasing new systems;
- replacing less advanced systems with new systems;
- providing upgrades of our MRI systems and upgrading our corporate infrastructure for future growth; and
- purchasing systems upon termination of operating leases.

Capital expenditures totaled $85.7 million for the year ended December 31, 2004, and 13.5 million in the first quarter of 2005. For the year ended December 31, 2004, we purchased 26 MRI systems, 12 PET or PET/CT systems, three CT systems and two other systems, including replacement systems. During the first quarter of 2005, we purchased three MRI systems, four PET or PET/CT systems, one CT system and three other systems, including replacement systems. Our decision to purchase a new system is typically predicated on obtaining new or extending existing client contracts, which serve as the basis of demand for the new system. We expect to purchase additional systems in 2005 and finance substantially all of these purchases with our available cash, cash from operating activities, our revolving line of credit, and equipment leases. Based upon the client demand described above, which dictates the type of equipment purchased, we expect capital expenditures to total approximately $85 to $90 million in 2005.

In connection with the 1999 acquisition of Alliance Imaging by an affiliate of KKR, we entered into a $616.0 million credit agreement consisting of a $131.0 million Tranche A Term Loan Facility, a $150.0 million Tranche B Term Facility, a $185.0 million Tranche C Term Loan Facility, and a Revolving Loan Facility. On June 11, 2002, we entered into a second amendment to the credit agreement and completed a $286.0 million refinancing of our Tranche B and C term loan facility. Under the terms of the amended term loan facility, we received proceeds of $286.0 from a new Tranche C term loan facility, and used the entire amount of the proceeds to retire $145.5 and $140.5 owed under Tranche B and C of our existing term loan facility, respectively. The new Tranche C borrowing rate was decreased to the London InterBank Offered Rate ("LIBOR") plus 2.375%. The borrowing rate under the previously applicable Tranche B borrowing rate had been LIBOR plus 2.750% and the previously applicable Tranche C borrowing rate had been LIBOR plus 3.000%.

In December 2004, we entered into a third amendment to our credit agreement which revised our Tranche C term loan facility ("Tranche C1") resulting in incremental borrowings of $154.0 million and decreased the maximum amount of availability under our existing revolving loan facility from $150.0 million to $70.0 million. We used the proceeds from the amendment to retire $256.4 million of our $260.0 million $10^3/_8$% Notes through a cash tender offer (the "Tender Offer). The amended Tranche C1 borrowing rate decreased to LIBOR plus 2.250%. At March 31, 2005, we had $64.8 million available borrowings under our revolving loan facility. The amended credit agreement contains restrictive covenants which, among other things, limit the incurrence of additional indebtedness, dividends, transactions with affiliates, asset sales, acquisitions, mergers and consolidations, liens and encumbrances, capital expenditures and prepayments of other indebtedness. Additionally, the amended credit agreement contains financial covenants which, as of March 31, 2005, require a minimum interest coverage ratio of 2.5 to 1.0 as well as a maximum leverage ratio of 4.0 to 1.0. As of March 31, 2005, we are in compliance with all covenants contained in our credit agreement and forecast that we will be in compliance with these covenants in 2005. Our failure to comply with these covenants could permit the lenders under the credit agreement to declare all amounts borrowed under the agreement, together with accrued interest and fees, to be immediately due and payable. If the indebtedness under the credit facility is accelerated, we may not have sufficient assets to repay amounts due under the credit facility. If we are not able to refinance our debt, we could become subject to bankruptcy proceedings.

In December 2004, we completed a Tender Offer and redeemed $256.4 million of the outstanding $10^3/_8$% Notes. We redeemed the $10^3/_8$% Notes at a redemption price equal to 113.856% of the principal amount, together with the accrued interest to the redemption date. We incurred a loss on early retirement of debt of $44.4 million for the tender offer which represents the tender premium and consent payment to redeem the $10^3/_8$% Notes, write off of unamortized debt issuance costs, and fees and expenses related to the redemption of the $10^3/_8$% Notes. We used the remaining proceeds from the amended term loan facility, proceeds from the sale of our $7^1/_4$% Notes, and existing cash to settle the tender premium and consent payment. At March 31, 2005, we had $3.6 million remaining of the original $260.0 million $10^3/_8$% Notes. As of March 31, 2005, we were in compliance with all covenants contained in our $10^3/_8$% Notes and forecast that we will be in compliance with these covenants in 2005.

In December 2004, we issued $150.0 million of our $7^1/_4$% Senior Subordinated Notes due 2012 (the "$7^1/_4$% Notes") in a transaction exempt from the registration requirements of the Securities Act of 1933, as amended, and used the proceeds to repay a portion of our $10^3/_8$% Notes. The $7^1/_4$% Notes contain restrictive covenants which, among other things, limit the incurrence of additional indebtedness, dividends, transactions with affiliates, asset sales, acquisitions, mergers and consolidations, liens and encumbrances, and restrictive payments. The $7^1/_4$% Notes are unsecured senior subordinated obligations and are subordinated in right of payment to all existing and future senior debt, including bank debt, and all obligations of our subsidiaries. As of March 31, 2005, we were in compliance with all covenants contained in the $7^1/_4$% Notes and forecast that we will be in compliance with these covenants in 2005. Our failure to comply with these covenants could permit the trustee under the Indenture relating to the $7^1/_4$% Notes and the note holders to declare the principal amounts under the $7^1/_4$% Notes, together with accrued and unpaid interest, to be immediately due and payable. If the indebtedness under the $7^1/_4$% Notes, or any of our other indebtedness, is accelerated, and we are not able to refinance our debt, we could become subject to bankruptcy proceedings.

During 2004, we entered into interest rate swap agreements, with notional amounts of $56.8 million, $46.8 million and $48.4 million to hedge the future cash interest payments associated with a portion of our variable rate bank debt. These agreements mature in 2007. We have designated these swaps as cash flow hedges of variable future cash flows associated with our long-term debt and will record changes in the fair value of the swaps through other comprehensive income during the period these instruments are designated as hedges.

In 2004, we used cash flow from operating activities to pay down $31.3 million under Tranche A of the term loan facility and $20.0 million under Tranche C of the term loan facility. In the first quarter of 2005, we used cash flow from operating activities to pay down the remaining $19.9 million balance under Tranche A of the term loan facility.

The future payments of our long-term debt, including interest, operating leases and binding equipment purchase commitments as of December 31, 2004 are as follows:

Contractual Obligations	2005	2006	2007	2008	2009	Thereafter	Total
				(in millions)			
Term Loan Tranche A(1)	$ 0.8	$ 20.6					$ 21.4
Term Loan Tranche C1	24.2	24.0	23.2	22.1	21.9	405.9	521.3
$10^3/_8$% Senior Subordinated Notes	0.4	0.4	0.4	0.4	0.4	4.0	6.0
$7^1/_4$% Senior Subordinated Notes	10.9	10.9	10.9	10.9	10.9	182.2	236.7
Equipment Loans	6.3	3.7	1.9	1.2	0.5		13.6
Operating Leases	4.9	4.1	3.6	1.8	0.6		15.0
Equipment Purchase Commitments	22.4						22.4
Total Contractual Obligation Payments	69.9	63.7	40.0	36.4	34.3	592.1	836.4
Less Amount Representing Interest	(33.2)	(32.5)	(30.7)	(29.5)	(29.3)	(68.1)	(223.3)
Present Value of Future Contractual Obligations	$ 36.7	$ 31.2	$ 9.3	$ 6.9	$ 5.0	$ 524.0	$ 613.1

(1) Our Tranche A term loan was paid off in the first quarter of 2005.

We believe that, based on current levels of operations, our cash flow from operating activities, together with other available sources of liquidity, including borrowings available under our revolving loan facility, will be sufficient over the next one to two years to fund anticipated capital expenditures and make required payments of principal and interest on our debt.

Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. See Note 2 to the consolidated financial statements included elsewhere in this prospectus for a summary of significant accounting policies. The significant accounting policies which we believe are the most critical to aid in fully understanding and evaluating our reported financial results include the following:

Revenue Recognition

The majority of our revenues are derived directly from healthcare providers and are primarily for imaging services. To a lesser extent, revenues are generated from direct billings to patients or their medical payors which are recorded net of contractual discounts and other arrangements for providing services at less than established patient billing rates. Revenues from direct patient billing amounted to approximately 13% of revenues in the first three months of 2005. Revenues from direct patient billing amounted to approximately 13%, 12% and 11% of revenues in the years ended December 31, 2004, 2003, and 2002, respectively. We continuously monitor collections from direct patient billings and compare these collections to revenue, net of contractual discounts, recorded at the time of service. While such contractual discounts have historically been within our expectations and the provisions established, an inability to accurately estimate contractual discounts in the future could have a material adverse impact on our operating results. As the price is predetermined, all revenues are recognized at the time the delivery of imaging service has occurred and collectibility is reasonably assured which is based upon contract terms with healthcare providers and negotiated rates with third party payors and patients. We also generate revenue from management services that we perform. These revenues are recorded in the period in which the service is performed and the collection of the billed amount is reasonably assured.

Accounts Receivable

We provide shared and single-user diagnostic imaging equipment and technical support services to the healthcare industry and directly to patients on an outpatient basis. Our accounts receivable are primarily due from hospitals, other healthcare providers and health insurance providers located throughout the United States. Services are generally provided pursuant to long-term contracts with hospitals and other healthcare providers or directly to patients, and generally collateral is not required. Receivables generally are collected within industry norms for third-party payors. We continuously monitor collections from our clients and maintain a provision for estimated credit losses based upon any specific client collection issues that we have identified and our historical experience. While such credit losses have historically been within our expectations and the provisions established, an inability to accurately estimate credit losses in the future could have a material adverse impact on our operating results.

Goodwill and Long-Lived Assets

Our operating results are highly dependent on maintaining and growing our revenues. A significant loss of client volume or key contracts could adversely affect our operating results. We have historically recorded goodwill and intangible assets from acquisitions, which were used as a method of expanding our business. Although our revenue and client base remains strong, significant reductions of revenue or the loss of key client contracts in the future could potentially impair the carrying amount of goodwill and other intangible assets necessitating a write-down of these assets.

We adopted the provisions of SFAS 142 as of January 1, 2002, which requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment at least annually. In accordance with SFAS 142, we have selected to perform an annual impairment test for goodwill based on the financial information as of September 30, or more frequently when an event occurs or circumstances change to indicate an impairment of these assets has possibly occurred. Goodwill is allocated to our various reporting units which are our geographical regions. SFAS 142 requires us to compare the fair value of the reporting unit to its carrying amount on an annual basis to determine if there is potential impairment. If the fair value of the reporting unit is less than its carrying value, an impairment loss is recorded to the extent that the implied fair value of the goodwill within the reporting unit is less than the carrying value. The fair value of the reporting unit is determined based on discounted cash flows, market multiples or appraised values as appropriate. We have discontinued amortization of goodwill as of January 1, 2002 for financial reporting purposes, and we comply with periodic impairment test procedures. In 2003, based on the factors described in Note 4 to the financial statements, we performed an interim valuation analysis in accordance with SFAS 142 and recognized a goodwill impairment charge in three of our reporting units. In 2004, we performed an interim valuation analysis and concluded that the fair value of each reporting unit exceeds its carrying value, indicating no goodwill impairment was present. No triggering events have occurred during the fourth quarters of 2003 and 2004 which would require an additional impairment test as of December 31, 2003 and 2004. SFAS 142 also requires intangible assets with definite useful lives to be amortized over their respective estimated useful lives to their estimated residual values and reviewed for impairment in accordance with SFAS 144.

Deferred Income Taxes

Deferred income tax assets and liabilities are determined based on the temporary differences between the financial reporting and tax bases of assets and liabilities, applying enacted statutory tax rates in effect for the year in which the differences are expected to reverse. Future income tax benefits are recognized only to the extent that the realization of such benefits is considered to be more likely than not. We regularly review our deferred income tax assets for recoverability and establish a valuation allowance based on historical taxable income, projected future taxable income, and the expected timing of the reversals of existing temporary differences. If we are unable to generate sufficient future taxable income, or if there is a material change in the actual effective income tax rates or time period within which the underlying temporary differences become taxable or deductible, we could be required to significantly increase our valuation allowance resulting in a substantial increase in our effective tax rate which could have a material adverse impact on our operating results.

We record accruals for tax contingencies when it is probable that a liability has been incurred and the amount of the contingency can be reasonably estimated based on specific events such as an audit or inquiry by a taxing authority. Changes in accruals associated with uncertainties arising from pre-acquisition years for acquired businesses are charged or credited to goodwill. Other adjustments to tax accruals are generally recorded in earnings in the period they are determined.

Recent Accounting Pronouncements

In January 2003, the Financial Accounting Standards Board ("FASB") issued Emerging Issues Task Force 03-01, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" ("EITF 03-01"). This guidance clarifies when an investment accounted for in accordance with APB Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock," and SFAS 115, "Accounting for Certain Investments in Debt and Equity Securities," is considered impaired, whether that impairment is other-than-temporary, and the measurement of an impairment loss. This guidance also includes accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. We adopted the disclosure requirements of EITF 03-01, however the recognition and measurement provisions of the standard have been deferred.

In November 2003, the FASB issued EITF 03-16, "Accounting for Investments in Limited Liability Companies" ("EITF 03-16"). This issue states that an investment in an limited liability company ("LLC") that maintains a "specific ownership account" for each investor, similar to a partnership capital account structure, should be viewed as similar to an investment in a limited partnership for purposes of determining whether a noncontrolling investment in an LLC should be accounted for using the cost method or the equity method. Therefore, the provisions of Statement of Position 78-9, "Accounting for Investments in Real Estate Ventures," and related guidance, including Topic No. D-46, "Accounting for Limited Partnership Investments," also apply to such LLCs. EITF 03-16 is effective for reporting periods beginning after June 15, 2004. The adoption of EITF 03-16 did not have a material impact on our consolidated financial position or results of operations.

In December 2004, the FASB issued SFAS 153, "Exchanges of Nonmonetary Assets" ("SFAS 153"), which is an amendment of APB Opinion No. 29, "Accounting for Nonmonetary Transactions," ("APB 29"). This statement addresses the measurement of exchanges of nonmonetary assets, and eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets as defined in paragraph 21(b) of APB 29, and replaces it with an exception for exchanges that do not have commercial substance. This statement specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS 153 is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. We believe the adoption of SFAS 153 will not have a material impact on our consolidated financial position or results of operations.

In December 2004, the FASB issued SFAS 123(R) (revised December 2004), "Share- Based Payment", which is a revision of SFAS 123, "Accounting for Stock-Based Compensation," and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." This statement requires that the fair value at the grant date resulting from all share-based payment transactions be recognized in the financial statements. Further, SFAS 123(R) requires entities to apply a fair-value based measurement method in accounting for these transactions. This value is recorded over the vesting period. This statement is effective for the first fiscal year beginning after June 15, 2005. We are currently evaluating the provisions of SFAS 123(R), and the impact on our consolidated financial position or results of operations.

Quantitative and Qualitative Disclosures About Market Risk

We sell our services exclusively in the United States and receive payment for our services exclusively in United States dollars. As a result, our financial results are unlikely to be affected by factors such as changes in foreign currency exchange rates or weak economic conditions in foreign markets.

Our interest expense is sensitive to changes in the general level of interest rates in the United States, particularly because the majority of our indebtedness has interest rates which are variable. The recorded carrying amount of our long-term debt under our existing credit agreement approximates fair value as these borrowings have variable rates that reflect currently available terms and conditions for similar debt. To decrease the risk associated with interest rate increases, we entered into interest rate swap agreements for a portion of our variable rate debt. These swaps are designated as cash flow hedges of variable future cash flows associated with our long-term debt.

These swap agreements have notional amounts of $56.8 million, $46.8 million and $48.4 million at March 31, 2005. Under the terms of these agreements, we receive three-month LIBOR and pay a fixed rate of 3.15%, 3.89%, and 3.69%, respectively. The net effect of the hedges is to record interest expense at fixed rates of 5.40%, 6.14% and 5.94% respectively, as the debt incurs interest based on three-month LIBOR plus 2.25%. For the quarter ended March 31, 2005, we recorded net interest expense on the swap agreements of $0.5 million. The swap agreements mature during 2007.

We have also entered into multiple interest rate collar agreements which have a total notional amount of $178.0 million. Under the terms of these agreements, we have purchased a cap on the interest rate of 4.00% and have sold a floor of 2.25%. For the quarter ended March 31, 2005, we did not record any settlement on these collar agreements. The collar agreements mature at various dates between January 2007 and January 2008.

The swap and collar agreements have been designated as cash flow hedges of variable future cash flows associated with our long term debt. In accordance with SFAS 133, the swaps and collars are recorded at fair value. On a quarterly basis, the fair value of the swaps and collars will be determined based on quoted market prices and, assuming perfect effectiveness, the difference between the fair value and the book value of the swaps and collars will be recognized in other comprehensive income, a component of shareholders' equity. Any ineffectiveness of the swaps and collars is required to be recognized in earnings.

The outstanding interest rate swaps and collars expose us to credit risk in the event that the counterparties to the agreements do not or cannot meet their obligations. The notional amount is used to measure interest to be paid or received and does not represent the amount of exposure to credit loss. The loss would be limited to the amount that would have been received, if any, over the remaining life of the swap and collar agreements. The counterparties to the swaps and collars are major financial institutions and we expect the counterparties to be able to perform their obligations under the swaps and collars. We use derivative financial instruments for hedging purposes only and not for trading or speculative purposes.

Our interest income is sensitive to changes in the general level of interest rates in the United States, particularly because the majority of our investments are in cash equivalents. The recorded carrying amounts of cash and cash equivalents approximate fair value due to their short-term maturities.

The table below provides information about our financial instruments that are sensitive to changes in interest rates. For long-term debt obligations, the table presents principal cash flows and related weighted average interest rates by expected (contractual) maturity dates. All amounts are in United States dollars.

	Expected Maturity as of December 31, 2004							
	2005	**2006**	**2007**	**2008**	**2009**	**Thereafter**	**Total**	**Fair Value**
	(dollars in millions)							
Long-term debt:								
Fixed rate	$ 5.5	$ 3.3	$ 1.7	$ 1.2	$ 0.5	$ 153.5	$ 165.7	$ 168.4
Average interest rate	8.32%	8.01%	7.73%	7.90%	8.09%	7.32%	7.38%	7.30%
Variable rate	$ 3.9	$ 23.8	$ 3.9	$ 3.9	$ 3.9	$ 370.5	$ 409.9	$ 409.9
Average interest rate	5.16%	5.17%	5.22%	5.02%	4.95%	4.81%	4.84%	4.84%

BUSINESS

General

We are a leading national provider of shared-service and fixed-site diagnostic imaging services, based upon annual revenue and number of systems deployed. In the first quarter of 2005, 70% of our revenues were derived from magnetic resonance imaging, or MRI, and 21% were derived from positron emission tomography and positron emission tomography/computed tomography, or PET and PET/CT. We provide imaging services primarily to hospitals and other healthcare providers on a shared and full-time service basis, in addition to operating a growing number of fixed-site imaging centers primarily in partnerships with hospitals or health systems. Our services normally include the use of our imaging systems, technologists to operate the systems, equipment maintenance and upgrades and management of day-to-day operations. We also offer ancillary services including marketing support, education and training and billing assistance. We had 466 diagnostic imaging systems, including 354 MRI systems and 56 PET or PET/CT systems, and served over 1,000 clients in 43 states at March 31, 2005. Of these 466 diagnostic imaging systems, 62 were located in fixed-sites, which constitutes systems installed in hospitals or other buildings on hospital campuses, medical groups' offices, or medical buildings and retail sites. Of these fixed-sites, 54 were included in our MRI systems count.

We typically deliver our services through exclusive, long-term contracts with hospitals and other healthcare providers which generally require them to pay us monthly, based on the number of scans we perform. These contracts average approximately three years in length and often contain automatic renewal provisions. For the quarter ended March 31, 2005, we received approximately 87% of our revenues from direct billing of our clients.

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

- avoid 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;
- benefit from upgraded imaging systems without direct capital expenditures;
- eliminate the need to recruit, train and manage qualified technologists;
- make use of our ancillary services; and
- gain access to services under our regulatory and licensing approvals when they do not have these approvals.

Industry Overview

Diagnostic imaging services are noninvasive procedures that generate representations of the internal anatomy and convert them to film or digital media. Diagnostic imaging systems facilitate the early diagnosis of diseases and disorders, often minimizing the cost and amount of care required and reducing the need for costly and invasive diagnostic procedures.

MRI

MRI involves the use of high-strength magnetic fields to produce computer-processed cross-sectional images of the body. Due to its superior image quality, MRI is the preferred imaging technology for evaluating soft tissue and organs, including the brain, spinal cord and other internal anatomy. With advances in MRI technology, MRI is increasingly being used for new applications such as imaging of the heart, chest and abdomen. Conditions that can be detected by MRI include multiple sclerosis, tumors, strokes, infections, and injuries to the spine, joints, ligaments, and tendons. Unlike x-rays and computed tomography, which are other diagnostic imaging technologies, MRI does not expose patients to potentially harmful radiation.

MRI technology was first patented in 1974, and MRI systems first became commercially available in 1983. Since then, manufacturers have offered increasingly sophisticated MRI systems and related software to increase the speed of each scan and improve image quality. Magnet strengths are measured in tesla, and MRI systems typically use magnets with strengths ranging from 0.2 to 1.5 tesla. The 1.0 and 1.5 tesla strengths are generally considered optimal because they are strong enough to produce relatively fast scans but are not so strong as to create discomfort for most patients. Manufacturers have worked to gradually enhance other components of the machines to make them more versatile. Many of the hardware and software systems in recently manufactured machines are modular and can be upgraded for much lower costs than purchasing new systems.

The MRI industry has experienced growth as a result of:

- recognition of MRI as a cost-effective, noninvasive diagnostic tool;
- superior soft-tissue image quality of MRI versus that of other diagnostic imaging technologies;
- wider physician acceptance and availability of MRI technology;
- growth in the number of MRI applications;
- MRI's safety when compared to other diagnostic imaging technologies, because it does not use potentially harmful radiation; and
- increased overall demand for healthcare services, including diagnostic services, for the aging population.

PET and PET/CT

PET is a nuclear medicine procedure that produces images of the body's metabolic and biologic functions. PET can provide earlier detection of certain cancers, coronary diseases or neurologic problems than other diagnostic imaging systems. It is also useful for the monitoring of these conditions. PET can detect the presence of disease at an early stage. The ability of PET technology to measure metabolic activity assists in the identification of lesions and the assessment of organ health. A growing body of clinical research supports PET as a diagnostic tool for cancer diagnosis, staging, and treatment monitoring. The recent expansion of Centers for Medicare & Medicaid Services ("CMS") coverage has driven the growth of PET. Since 1998, the diagnosis, staging, and restaging of lung, esophageal, colorectal, breast, head and neck cancers, lymphoma, and melanoma have been approved by CMS for reimbursement. Effective September 15, 2004, CMS expanded national PET reimbursement coverage to include PET scans for diagnosis and treatment of dementia and neurodegenerative diseases. On January 28, 2005, Medicare issued a national coverage determination providing for expanded national PET reimbursement coverage for brain, cervical, ovarian, pancreatic, small lung cell, and testicular cancer. Under this national coverage determination, PET is to be covered for detection of pre-treatment metastases in newly diagnosed cervical cancer, as well as for brain, ovarian, pancreatic, small cell lung, and testicular cancers, where provided as part of certain types of clinical trials.

An emerging technology is the combined PET/CT system. A PET/CT system fuses together the results of a PET and computed tomography ("CT") scan at the scanner level. The PET portion of the scan detects the metabolic signal of cancer cells and the CT portion of the scan provides a detailed image of the internal anatomy that reveals the location, size and shape of abnormal cancerous growths.

Other Diagnostic Imaging Services

- *Computed Tomography, or CT.* In CT imaging, a computer analyzes the information received from an x-ray beam to produce multiple cross-sectional images of a particular organ or area of

the body. CT imaging is used to detect tumors and other conditions affecting bones and internal organs.

Other Services. Other diagnostic imaging technologies include x-ray, single photon emission computed tomography, and ultrasound.

Imaging Settings

MRI, PET and other diagnostic imaging services are typically provided in one of the following settings:

Hospitals and Clinics. Imaging systems are located in and owned and operated by a hospital or clinic. These systems are primarily used by patients of the hospital or clinic, and the hospital or clinic bills third-party payors, such as health insurers, Medicare or Medicaid.

Independent Imaging Centers. Imaging systems are located in permanent facilities not generally owned by hospitals or clinics. These centers depend upon physician referrals for their patients and generally do not maintain dedicated, contractual relationships with hospitals or clinics. In fact, these centers may compete with hospitals or clinics that have their own systems to provide imaging services to these patients. Like hospitals and clinics, these centers bill third-party payors for their services.

Outsourced. Imaging systems, largely located in mobile trailers but also provided in fixed facilities, provide services to a hospital or clinic on a shared-service or full-time basis. Generally, the hospital or clinic contracts with the imaging service provider to perform scans of its patients, and the imaging service provider is paid directly by that hospital or clinic instead of by a third-party payor.

Our Competitive Strengths

A Leading National Provider of Shared-Service and Fixed-Site MRI an