Keys To Successful

Medical Imaging Transactions

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Keys to Successful Medical Imaging Business Transactions

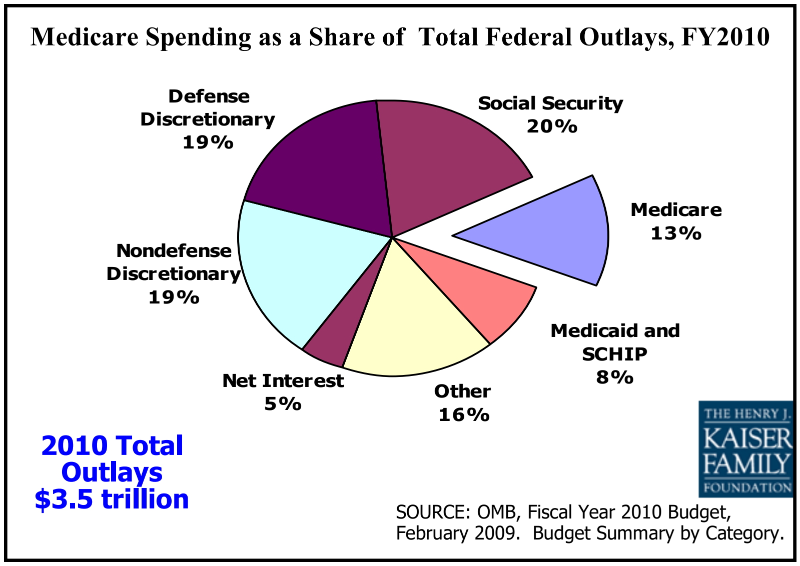
First, Some Perspective

Since the mid 1990's the diagnostic imaging industry has continued to experience rapid growth. From 1996 to 2004, the industry witnessed over a 50% growth in procedural volumes with 2008 volumes projected to be well beyond 100 million exams. In order to meet this increasing demand, approximately 1,600 additional diagnostic imaging facilities entered the market between 2001 and 2006, bringing the total number of centers nationally to around 6,500. Various industry sources estimate procedure volume will continue to increase for the foreseeable future in spite of downward pressure on reimbursement. Those same sources are forecasting exam volume to approach 140 million by 2015. Estimates published by research organizations such as 3d Health reveal imaging now represents a full 10% of the total healthcare dollar, 75% of which is represented by advanced imaging. Industry utilization and revenues are projected to continue growing over at least the next 5 years due to several factors including: i) Increasing demand due to a growing number of the "baby boomer" generation reaching retirement age, ii) New technology and new uses for existing technology will drive exam utilization by physicians, iii) Defensive medicine – a 2005 survey by the American Medical Association found that 93% of all physicians surveyed reported using the practice of defensive medicine to mitigate patient litigation, and iv) General population growth will drive additional need for imaging services. As summed up in October 2007 by Daniel Levinson, Office of the Inspector General, Department of Health and Human Services: *"Advanced imaging modalities (MRI, CT, Nuclear Medicine, PET) today comprise about 40% of all exams performed nationally.*" As technology continues to advance and provide new options for diagnostic tests, advanced imaging utilization is forecast to grow faster than other modalities. A spring 2008 survey of Critical Access Hospitals across the United States performed by Regents Health Resources, Inc. revealed a combined 65% of facilities have plans to add or upgrade MRI and CT services within the next three years.

Advances in technology are dramatically expanding the number of clinical applications for advanced imaging and fueling the accelerated growth in Imaging procedures.

A demand for imaging services has yielded a proliferation of new imaging facilities, healthcare continues to be product that is performed and delivered locally. Each imaging center's success is directly tied to its referring physician relationships, their perception of its quality and the quality of the payer contracts. Leverage provided by multiple locations within a market, centralized administration and successful payer relationships are increasingly fleeting for the single site, single modality center today. In spite of this statistic, the outpatient marketplace remains highly fragmented with the top 10 imaging companies representing only about 13% of the total number of facilities nationally.

Historically, Diagnostic Imaging Center Owners / Companies have made significant inroads positioning their services as cost-effective, convenient diagnostic tools, and have generally gained broad acceptance by physicians, patients, and insurance providers. A renewed focus on preventive medicine, the increasing older population, advanced



procedures that produce better, more definitive diagnostic results, and the threat of litigation are considered to be the primary drivers. These factors, coupled with improvements in imaging technology, have driven the imaging industry's total market revenues to over $100 billion as of 2007. In the chart above of, you can see the percentage of dollars that the federal government is budgeting to spend on Medicare and Medicaid in 2010—healthcare dollars continue to be under a microscope.

Despite robust industry growth, the challenges are increasing. There is mounting pressure facing the U.S. healthcare system including: ever-increasing federal deficits, increased utilization, the rising costs of healthcare, and the growing ranks of the uninsured. Increasingly, the diagnostic imaging industry is finding itself in the crosshairs of these healthcare concerns. Both the federal government and payers believe imaging utilization and growth can be curtailed through additional measures. Those include the use of Radiology Benefits Management ("RBM") companies like National Imaging Associates, CareCore, American Imaging Management, MedSolutions and Health Help whose business purpose is to dampen imaging utilization for their payers through a pre-authorization process. Meanwhile, software based clinical decision support tools like those offered by Medicalis or Nuance take a clinical approach to managing overutilization and incorrect exam ordering.

Ultimately, as aspects of the imaging market become more challenging, imaging center operators with strong market positions will continue to adapt successfully to market conditions, just as they have in the past. Examples of modification are evident, as independent centers increasingly align themselves with one another to benefit from economies of scale and attempt to withstand the effects of a challenging reimbursement environment. In spite of the efforts, many of these facilities are being purchased by larger chains and consolidated or are closing their doors altogether.

Fragmentation

As stated earlier, the imaging market is highly fragmented, with a significant percentage of imaging centers being independently owned and not affiliated with multi-center chains or hospitals. 2008 data shows almost 400 companies own 4 or more centers with just over 70 that own 10 or more. Even before the recent emergence of regulatory challenges, the industry structure had begun to diverge into two broad classes of operators:

i) Financially stable operators, particularly regional operators and multi-site local operators, with established local networks and an ability to exert influence over payers, providing consistently superior care.

ii) Marginal players, particularly single-site, or single modality operators, that are vulnerable to reimbursement pressure and that face an increasingly challenging competitive position.

Regents believes the result of this divergence will be continued consolidation among operators that have a stable competitive position, with marginal operators facing increasing distress and possible closure. Regents believes that this dynamic presents a significant growth opportunity for strong companies to expand their operations.

Driving industry trends is a convergence of several factors, including growing federal deficits, rising costs of healthcare services, and a perception at the federal level of abusive utilization of imaging services. Congress responded to these factors by enacting the Deficit Reduction Act of 2005 ("DRA"), which was signed into law in January 2006 and went into effect on January 1, 2007. The DRA provided reductions in Medicare and Medicaid reimbursement for virtually all imaging services. In addition, the Centers for Medicare and Medicaid Services ("CMS") has begun to actively address the factors that it believes have resulted in the unnecessary utilization of imaging services. While not adopted in 2008, proposed regulations to convert all centers previously designated as "Physician Practices" to "Independent Diagnostic Testing Facilities" ("IDTF") proves the medical imaging industry is under pressure and will eventually have to comply with more stringent quality regulations. These actions are an indirect attempt by CMS to slow the growth of in-office imaging utilization by forcing centers to comply with more onerous regulations. Finally, in July 2008, the Government Accountability Office recommended preauthorization measures to slow the explosive Medicare imaging growth. CMS is evaluating those today as part of its new "Meaningful Use" definitions. Positively, early in 2008 Congress voted to set aside the 10.6% physician fee schedule cut planned for July 2008 and replace it with a 3% update. Provider based (i.e. Hospital) reimbursement increased 3% in 2009.

While reimbursement pressure has increased, regulatory uncertainty has resulted in short-term challenges for the industry. Regents believes that these developments will result in long-term opportunities for strong, well organized companies as the weaker players are driven out of the market.

Hospital Acquisition of Imaging Facilities

Increasingly, imaging is becoming a more significant portion of hospital revenues. A 2008 survey by Regents of the nations Critical Access Hospitals revealed that nearly 90% report their imaging services as profitable. Further investigation reveals, in many cases, imaging has replaced surgery as the most significant contributor to hospital profitability. Because of this, hospitals have become focused on making acquisitions of outpatient service businesses as part of their local strategies. Imaging constitutes a major focus of these efforts. For example, in 2007, Novant Health acquired the assets of MedQuest Associates, Inc., one of the largest operators of diagnostic imaging facilities at the time, with nearly 100 facilities nationally. Many hospitals across the nation are evaluating their outpatient and inpatient imaging strategy, struggling for more efficient ways to serve their patient population. Outpatient imaging represents an opportunity to create greater brand awareness for a hospital in addition to being a feeder for other hospital based services. If managed well, imaging should supplement the bottom line.

Some Perspective

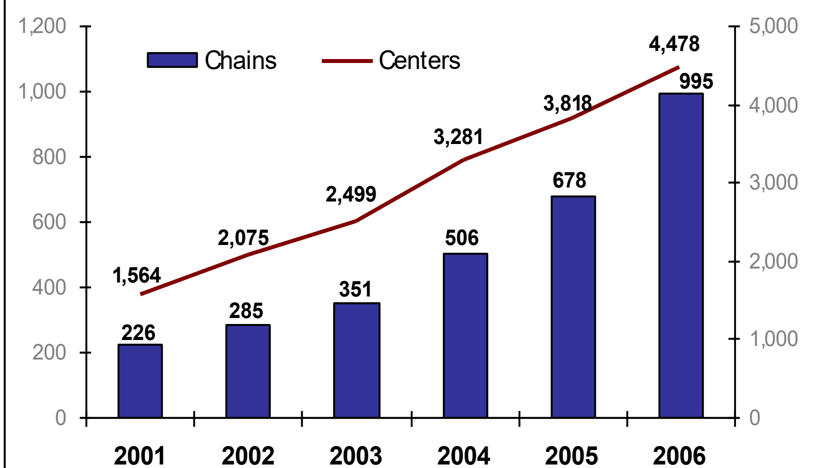
Imaging Center Chains

A multi-facility imaging center chain is generally defined as a corporation that owns, manages or leases more than one diagnostic imaging center. The number of multi-facility imaging center chains continues to increase nationally. From 2001 to 2006, the number of chains has more than quadrupled while the corresponding average numbers of facilities that they either own, manage, or lease has almost tripled (see chart below).

Despite the growth in multi-facility chains, just over half of all imaging centers remain independent, "as one of one" or "one of two", creating a target-rich environment for acquisitive imaging center chains or hospitals. In addition, increased competition in the growing diagnostic imaging market will make it more difficult for independent centers to effectively compete with other networks.

Continued Consolidation of Imaging

To remain competitive and capitalize on the forecasted utilization increases over the coming years, imaging providers will need to proactively seek, evaluate, and adopt new processes, tools and partnerships that promote their own unique business goals and those of the larger medical community, including regulators. They must remain cognizant of cost and utilization pressures while increasing quality and looking for better ways to add value to the referring community through education and high customer service standards.



Source: Verispan, Frost & Sullivan

As outlined previously, the diagnostic imaging industry is highly fragmented with no dominant national provider. This remains the case despite that during the last five years, the industry has attracted substantial amounts of capital from both private and public investors. Consolidation is occurring because larger imaging companies with more efficient capital structures will seek to utilize economies of scale to support overhead expenses related to operations. The industry fragmentation continues to grow and creates a ripe environment for consolidation. Single modality and single site companies will continue to experience greater challenges from payers and the RBMs who value full service capabilities from their imaging providers. According to Verispan data, the national split between single and multi- modality centers is now nearly equal at 53% to 47%, respectively. We expect the number of single modality centers to continue to decline.

No matter where your business currently resides within this complicated market, there are opportunities for you to consider to help shape your future. The sale of your business or acquisition of others to improve your position is just one strategy and the point of this exercise. We hope you find it useful.

Keys to Successful Medical Imaging Business

1. Communication

As we dive into exploring the key elements for a successful transaction, it's no accident that we want to talk about communications first. We realize the whole communications discussion seems elementary, so we apologize for reviewing the obvious, but it's that important. There is no other single element that has a greater impact on your relationships and transaction success than communications.

With so many different styles of communication, differing points of view, and often conflicting goals, it is critical to keep everyone *else* informed on a number of specific areas that we would like to outline below:

There is no other single element that has a greater impact on your relationships and transaction success than communications.

- Deliverables – What is expected and by whom? The deliverables will change.
- Responsibilities – All parties have them. Outline them in writing.
- Definitive Goals – What is the exit strategy? What is plan "B" when plan "A" fails?
- Road Block Identification – Are there skeletons in the closet? Group dynamics issues?
- Defined Schedule – The pre-work, book development, letter of intent, closing, etc.
- Accountability – Keep each other accountable and remember to remain flexible.

While this list is of course incomplete, if you think about how closely these elements relate and affect each other, they cover a lot of ground. Effective communication is a result of trust and understanding between parties. Without trust, communications will suffer and so will your deal. If you don't trust your representatives, or the buyer or seller (depending on which side of the deal you're on), walk away now. Find another method to achieve your business goals. You will save yourself and everyone else a lot of time and money.

Find trusted representatives and partners and use every technology and opportunity available to communicate. The deal process is just that, a process, and the chances are, you have probably never been involved in a transaction of this magnitude before. This creates anxiety, stress, and concern. Poor communications don't help. Get your team to operate proactively and manage the process like any other project that has a specific timeline, goals and objectives. Communicate with the right stake holders often, and at the appropriate times. You will save yourself, and others, a lot of heartache.

2. Valuation Expectations

What do *you* think your business is worth? What do *they* think its worth? At face value, this sounds as if we are over simplifying things again, but you will see that reasonable expectations are essential in executing a deal. After communication, no other item leads to more failed transactions than disparity in the expectations of the value of a business.

Unfounded valuations often lead to unattainable expectations.

When considering the sale of your operation, what is more important than price after you remove the emotion? When you look at acquiring, what is more important than your return on investment, which will be impacted by the acquisition price of the entity?

Let's first explore the seller's perspective, starting by trying to separate emotion from reality. Our intention here is not to hurl an insult but to simply emphasize that all too often, emotion clouds reality when a person starts talking about large sums of money related to a business into which they have poured their blood and sweat. Emotions can be fueled by a number of unreliable data points gathered during a transaction that sets unrealistic expectations. For example:

- The water cooler conversations with the guy that just stayed at a Holiday Inn Express and fancies him or herself an expert regarding business valuations based on something "heard" from a buddy
- The press release someone read about a similar business selling for absurd multiples without disclosing the market or strategic detail behind the transaction
- The doctor who thinks he or she wants $X million for their business with no market basis for this value. Simply a "feeling" they have about their business

Unfounded valuations often lead to unattainable expectations. It is possible to have a competent, reputable, and knowledgeable professional perform a comprehensive business valuation; however, what a business owner expects that his or her business is worth after numerous side bar conversations with associates and the rumor mill often times doesn't align with a professional assessment. Another ingredient that tends to muddy the water further is internal business or group valuations used to facilitate partner buy-ins and buy-outs. In most cases, these processes don't reflect common, industry-wide valuation methodologies or market and business conditions. They are a formulaic in nature, usually agreed upon by the leadership, and used as a tool internal to the business with no real correlation to true fair market value of the entity.

No single event in the last 5 years has had a greater affect on imaging than the Deficit Reduction Act of 2005.

3. Aligning the Valuation with Expectations

First, it is critical to set aside the emotion associated with the feeling that the business is "your baby" – no one is going to pay you for your level of emotional attachment or that you "started it from nothing". Sorry!

Second, you have to ignore what your buddy told you and what you read in the latest press release. Forget about it, please! You won't have all the information needed to truly make a sound comparison of the market and how your business relates. Third, forget the internal buy-in buy-out formula you've been using for years with your partners – in most cases it's not reflective of the true value of your business. We will need to consider it later in the transaction as we calculate distributions at closing, but it is not a valid determinant of the value of your business for negotiations.

Finally, engage the services of a trusted, experienced and qualified professional. Professional what? Think about it like this: would you send your kids to the drug store to get a cavity filled? I hope not. Likewise, your CPA / financial advisor, while surely a great accountant, with a finance degree and years of experience, will, in most cases not have the experience in healthcare or medical imaging to understand the myriad of market, regulatory, and business conditions that directly impact the value of a medical imaging business. Yes, they understand how to crunch numbers and calculate multiples, but there is much more to it than that. Try asking them to explain Stark Regulations or Meaningful Use. What is "In Office Exemption" and how does it affect you? In most cases, they won't be able to. Contrary to what most people believe, the value of your business is not based solely on a multiple earnings.

The multiple that is so often referred to is simply a number that is used to quantify the sale price or value of a business as it relates to the transaction, earnings, and financing calculations.

The buyer side is a different animal entirely, and not without its own "hair" if you will. It is rare that a buyer would become emotional about the business being acquired; however emotion for an acquirer does still exist in the form of excitement over the prospect of increased revenues and the execution of a strategy. Most often, after decisions have been made about target markets and desired profiles, it comes down to price and terms. Many times though, buyers want to look a little too much at history and not enough at current conditions in setting their price expectations. This can be a buyers biggest hurdle to acquiring great businesses: *failure to recognize the current operational and marketplace conditions that affect the target's value.*

Key Elements of Imaging Market Leadership

Keys to Successful Medical Imaging Business

While working on a fairly large transaction (over $30 million) over several weeks, we discussed the specific expectations around a purchase price with groups of buyers. At the end of the round of communications, it became clear that some of the buyers were just not living in a grounded reality relating to the prices they were willing to pay. As a result, they were not successful ly acquiring assets. What do we mean? Well, the "fantasy land" buyers capped their acquisition strategy and offers at 2-3X earnings, period. Not reasonable for strong businesses and the market at the time. Digging in, we inquired as to how many deals they had completed in the last year and a half or so. The reply: "none". They had money, talent, and a desire; the barrier was setting their valuation expectations before understanding the business! There are facilities out there that can be purchased for 2-3X earnings, but the old adage is often true – you get what you pay for. Contrast the fantasy buyer's mindset with that of other buyers we worked with during the same period. They valued businesses in the market according to measurable metrics such as:

The problem today is, most everyone wants to talk about multiples at the beginning of a transaction.

- Market share
- Population trends
- Geographic coverage and leverage
- Payer leverage and contracts
- CON ownership
- Operational efficiency and scalability
- Opportunity for improvement and growth after the transaction

Perhaps more importantly, the realistic buyers looked at each market individually first, independent of a national strategy, and were flexible in their target terms. When these buyers were asked how many transactions had been completed in the same time frame, they each had completed many. They were taking a realistic look with a long term strategy and considered the current REAL market. At the time, these transactions were occurring between 4 and 7X earnings, depending on myriad of business conditions and attributes.

The problem today is, most everyone wants to talk about multiples at the beginning of a transaction. Why is this a problem? It's like getting paid for a points spread bet on next year's Super Bowl today. "*Merger and acquisition transactional prices often to some extent reflect synergies between acquirer and acquiree. To the extent that this is true, a transaction may be more reflective of investment value (i.e., value to that particular buyer) than fair market value (i.e., the value to a hypothetical, typically motivated buyer). For this reason, the circumstances of the merger and acquisition transaction must be carefully analyzed.*" [1]

1. Valuing Small Business and Professional Practices, McGraw Hill, pg 325

In other words, all of the intricacies of a business, and the relationship between buyer and seller must be considered in the value and transactional price of a business. Multiples of earnings are simply a measure of a transaction after the transaction has been completed.

Unfortunately, too many people get emotional and fail to analyze the reality of the situation when multiples are brought up too early in negotiations. When this happens, feelings get hurt and people feel undervalued or insulted. Imagine in the following conversation:

Seller: ***"I heard about this deal where the seller got 11.4X earnings for the business. Therefore, we won't consider offers below 11X."***

Interested Buyer: ***"Really? We just closed on a business similar to yours last month. We paid 2.5X earnings total. We believe your business is a little stronger. But generally we won't offer to buy any businesses over 3X trailing 12."***

I'm sure you can imagine how quickly things would unravel and how the conversation would proceed from there. This might sound a little absurd when you read it on a page, but unfortunately it happens. These types of early communications do nothing to build trust in a relationship. We're not trying to feature either party as right or wrong, but just to say this is not a conversation to have early on. Even if this is what each party is thinking, it's just too vast a difference in perspective to share before learning details.

As a seller, try to stay away from setting expectations of multiples.

As a buyer, remain open to the unlimited business conditions of which you may be unaware that can drive value.

4. Private Equity / Venture Capital Purchase vs. Existing Operator Purchase

This is yet another instance that can cloud the transaction negotiations. These two types of buyers come from very different backgrounds, have different goals and expectations, and usually have different methodologies for how they value a business. Let's explore why one might be preferred over another in a given instance.

Private equity / venture capital ("VC") firms are usually bound to the terms and conditions of their investors, and often look at market conditions based on the economic market as a whole. They are often industry agnostic, and therefore do not necessarily have a deep understanding of an imaging business, its upsides and risks. Many times a VC firm is limited to a multiple of the trailing 12 months' earnings and won't consider future earnings potential and terminal value. Is this good or bad? It depends. *....Continued on page 10*

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The good news is, if your earnings are strong, this may fall directly in line with a valuation. Or if national market trends are stronger than the imaging market specifically, a seller may be able to capitalize on the higher multiples. The bad news is, it severely limits the ability to negotiate past a certain point where significant business issues have changed or improved. For example: within the last year, you might have added additional modalities that are going strong that you won't get credit for in a valuation. What a VC firm does bring to the table, is the need for a partner. They may want an operator to run the business after the transaction. Many times they are not prepared to come in and clean house and replace all the people that have made the business what it is today. To maximize their investment, the need the business to continue to thrive and produce earnings that will increase their returns. This can mean that they may want you stay involved in the operations and perhaps ownership of the business for a defined term. A desirable option for some owners.

Multiples of earnings are simply a measure of a transaction after the transaction has been completed.

The flip side to VC money is an entrepreneur or existing operator who is looking to make an investment in a business to grow in-organically. A company that currently operates imaging facilities, or an entrepreneurial group that has experience in this sector are typically more flexible in their ability to "justify" a larger variation in value. They know the market and the industry. They will typically have a better understanding of the intricacies of an imaging business, and as a result may be willing to take a slightly higher risk if they see something worth investing in. In addition, they may have processes and protocols in place at their existing facilities that they can lay over top of an acquisition providing for instant efficiencies and a greater return on investment. These factors make it possible to demonstrate a higher value by looking at operational conditions, market conditions, future expansion possibilities and cost cutting measures that an existing operator (Buyer) *might* be willing to pay for. In these instances, it is important to consider other factors about life after a transaction. What is the relationship going feel like, and how will it thrive? Will they come in and replace your team because they already have a management team in place? Will they layoff your billing staff because they have a centralized operation? What are the other factors involved in bringing in a current operator to assimilate your business?

These are all crucial factors in determining who you want to do business with, and how much of the business you want to sell.

These two simple examples show just a fraction of the considerations needed when looking at a potential transaction. This is where having a qualified representative, who is experienced in diagnostic imaging, and has spent the time at your business to learn it inside and out, truly brings benefit when advising you in your decision to sell.

If you are a buyer, having a representative that knows imaging and the market—nationally and locally, makes understanding a business, particularly if you are unfamiliar with the industry, that much simpler and should shorten your timeline for due diligence. But of course, this leads to another problem in the market today: volatility. There are over 6,000 diagnostic imaging centers in the country. How do you find one to buy, and how do you separate the good from the bad without wasting time and money? Likewise, if you own a center, how do you know if it's time to sell, where you might fit in the market and how do you find not just any buyer, but the right buyer?

5. Lack of Viable Targets

The key word here is viable. With the array of regulatory changes, payer challenges, and recent (*lack of*) availability of capital, long term viability is a real issue for some operators. This applies to both large and small operators. Debt is killing some operations after the DRA was implemented and revenue declined. Other centers have been run like physician practices: undercapitalized, and drained of cash every year. *(No offense doc, but a technical imaging location should not be run like a physician practice).* Others have just been run inefficiently and are failing as a result of a lack of market share, poor marketing, lack of payer leverage, technology obsolescence and so on. So, while the data says there are an enormous number of centers nationally, the reality is, finding a target worth investing in today is getting tougher and tougher.

In the past (before DRA and reimbursement reductions), it was relatively easy to have a successful business without an efficient operation. *Those days are over.* The environment has changed and will continue to become more challenging. As a seller, you must be able to objectively demonstrate the inevitable question: "How viable is your business long term and what are you doing to protect and improve that viability?"

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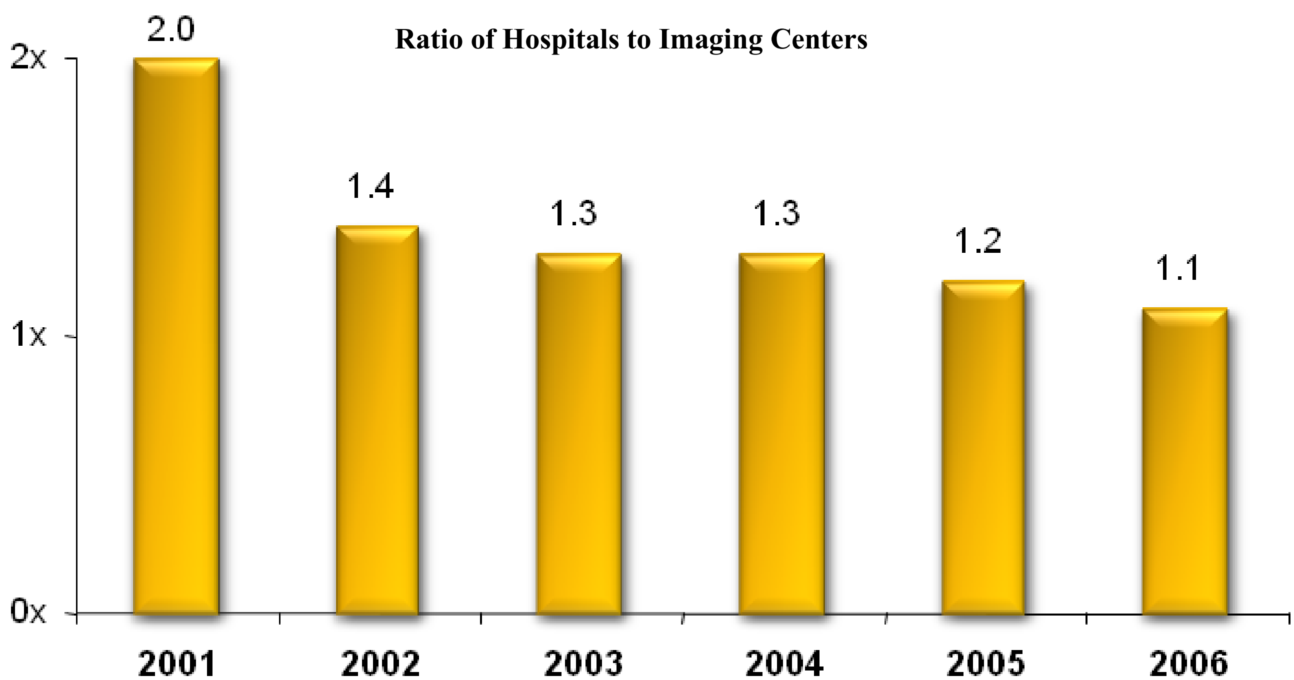
Ratio of Hospitals to Imaging Centers



Verispan: Frost & Sullivan Data

6. Other Buyer / Seller Competition

Timing, it seems, can be everything. The timing of your sale or purchase can be influenced, believe it or not, by another transaction six states over. How? Medical imaging is a small, very specialized industry and sophisticated buyers are often looking on a national scale. The opportunities available to them at any particular time can change the perception of what is viable or not. With regard to local deals, market saturation and competition can greatly affect what the relative value of your business looks like to a buyer. You may be very profitable, but if there is an imaging center on the three surrounding corners of your business, it will be hard to justify to a buyer that they should spend a high multiple on your center. For them, the investment becomes more risky. Every buyer is looking at return on investment as the metric that determines a successful investment (and financing) and therefore makes every attempt to qualify and quantify risk.

Likewise, if a buyer has the opportunity to acquire three similar imaging centers with similar earnings history, they are likely to engage in a reverse bidding war, in which they will look at buying the center that has the best future in order to maximize their return on investment. It is simple economics, and competition inevitably reduces the overall price of a commodity, which in this case, might be your operation. Outlining a sound strategy with your advisor is a key element in promoting your long term viability and current value.

7. Shareholder Preferences and Concerns

The final decision usually comes down to a calculation of risk.

At the end of the day, for a transaction to be successful, it has to meet the needs of both the buyer and the seller. Sure it sounds simple, but how many practice or ownership partners do you have? In instances where the seller is a collection of shareholders, meeting those needs can be complicated. How easily can all of your partners get on the same page?

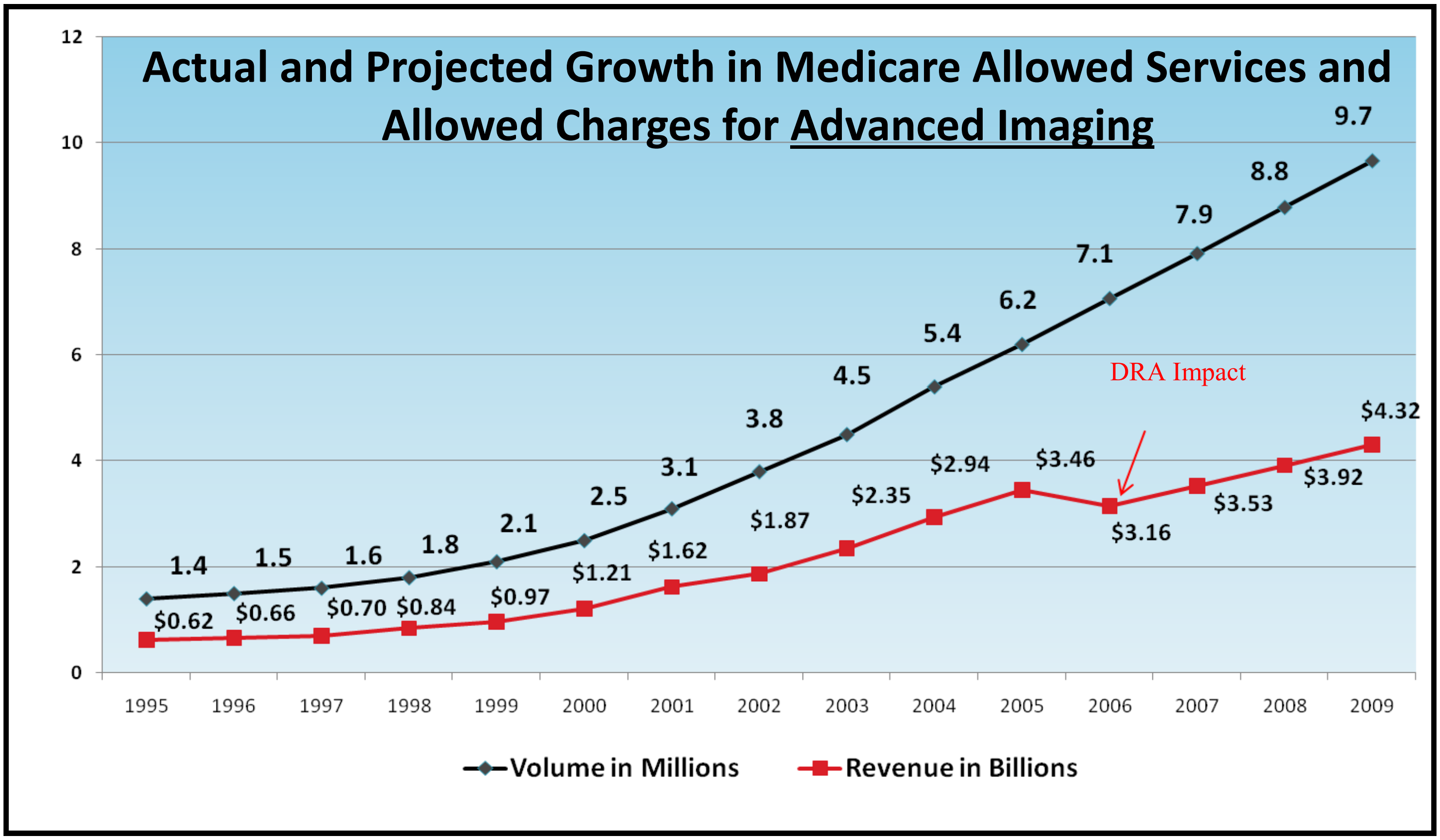
One of the challenges in presenting a sale to a group of shareholders is trying to mitigate the expectations of each individual. The 35 year old physician who bought into your partnership last year is going to be less likely to want to sell his ownership this year, unless the proceeds he sees are significant enough to offset the tax penalty he would receive on short term gains. The partner who founded the business 30 years ago perhaps, is now ready to maximize the gains on all of his hard work, play golf and set aside some cash for his retirement and his heirs. What about the partners who fit in between these two extremes: the physician who bought in ten years ago, but still wants equity and professional revenue for 15 more years?

As you can see, there are a number of considerations to accepting an offer that will make all hands in the room go up when called on for a vote.

Many times the primary consideration is as simple as it sounds – money. What is the right amount of money that will make each shareholder feel that they have maximized their return on investment, no matter when that investment occurred? What will it take to make each of them feel "whole"?

There are still many intricacies that can alter the perception of that paycheck as well. For instance, what is the real present value of your cash flow? If you take a one-time payment now for 100% of your business, what will that be worth in 5 years? What about 10 years? What if you accept less money now but maintain 25% ownership? What is the present value of the cash distributions over the next 5 or 10 years, and what is the value of your 25% equity 5 years from now if you only sell 75%? What is the risk in each scenario?

All of these are variables that can completely change how a shareholder views one offer versus another. The final decision usually comes down to a calculation of risk. Are you willing to take a risk on your money now, in order to see higher returns over the next 10 years, or would you rather take out your money now, and let someone else worry about the risk? Accurately defining these issues and honest communications within your partnership will be the keys to success.



The graph above shows the relationship between utilization and revenue for Advanced Imaging nationally. Something to consider as you ponder the impending changes in reimbursement and how your company is situated to weather some of the storm.

Keys to Successful Medical Imaging Business

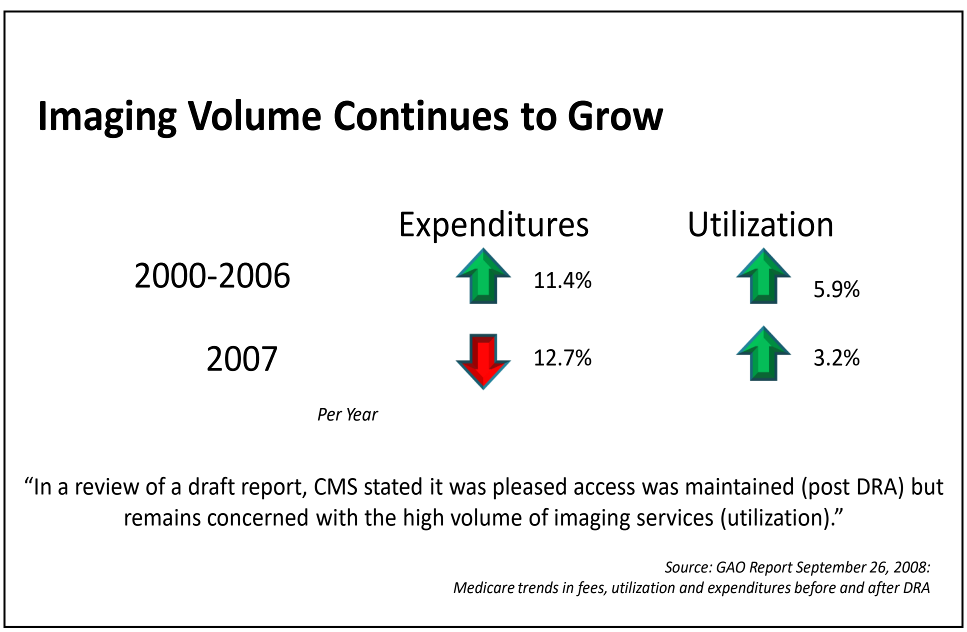
8. Market Uncertainty

So you've addressed all the concerns and cleared the hurdles put in your path. You've overcome expectations, you have established a realistic price, your shareholders have all agreed, and you think you've found qualified buyers. Why can't you get a Letter of Intent signed? Perhaps the key factor is market uncertainty. This can apply to your local market, your state, or nationally. It is crucial in any transaction to have a clear understanding of what is happening in all aspects of your market and proactively communicate it. Are local providers thriving or are they shutting their doors? What are the payers doing? Are rates continuing to decline, or have you made headway in freezing or raising reimbursement rates? What is the local population doing, and what are your patient demographics? All of these factors contribute to how a buyer will consider the risk of entering into your market and they change during the life of a transaction. Have a plan to regularly address and communicate changes on an agreed upon schedule.

***Remember*: Less Risk = Greater Value**

What about statewide considerations? Are there CONs that help protect against competition by providing strict barriers to entry? If you operate in a handful of states like Michigan, Connecticut, or North Carolina for instance, the answer is yes. What does this do for you? Well, it makes your business much more appealing because as a buyer there is less risk. The buyer doesn't have to worry about waking up and finding an imaging center right next door. Market uncertainty is reduced and risk is mitigated. In addition, less competition generally means higher reimbursement and better leverage, so again, less risk to the investor. In spite of reimbursement declining, utilization has continued to grow.

Why can't you get a Letter of Intent signed?



On a national scale, no single event in the last 5 years has had a greater affect on imaging services than the Deficit Reduction Act of 2005. When the administration announced these reductions in government reimbursement, it changed the face of diagnostic imaging nationally, and reduced the value of every diagnostic imaging center across the country overnight. The government is not done yet. You must plan today for changes in how imaging is approved, tracked and reimbursed.

The government is still complaining about increased utilization and imaging costs that are too high. If you take nothing else with you, realize this – downward pressure on reimbursement will continue as utilization increases, and utilization *will* continue to increase in the foreseeable future. While not everyone (including us) in the industry agrees that reimbursement is the issue, we can all agree that there are planned additional cuts to the Medicare Physician Fee Schedule, and if Medicare reimbursement declines, it usually doesn't take long for other payers to follow suit.

So ask yourself, if you were investing in a business, wouldn't you want to protect yourself against future declines in revenue? Any reasonable businessman or woman would. So be prepared to see some hesitation from buyers and investors, even if your business is thriving today. Be prepared to address those concerns with real strategies.

9. Relationships

In case you hadn't noticed it yet, diagnostic imaging is a business of relationships. This is evident everywhere, from the patient walking in and feeling welcome by your front desk staff, to your relationship with the referring physician that sends the patient to your door, to the CEO or Practice Manager that helps to run your business. How about the relationship with the payers? It doesn't end there. The national picture of diagnostic imaging is filled with a lot of the same recognized names. Finding an advisor who has established relationships and can manage the process for you, not to mention a commanding knowledge of the industry and the medical imaging market, is paramount in working through to a successful closing.

Additionally, the relationships formed after a transaction has been completed are vital to the continuing success of your business and the happiness of all parties involved. As you consider the buyers or sellers, of which there are many, you must consider not just the dollars, but what will work in a relationship going forward. How will the parties interact? What are the business goals? What will the professional services look like? Will there be integration into a larger regional or national operation? Is there an opportunity to leverage payers? Is there a back office billing and support network? What PACS/RIS system do they use? What about teleradiology services and sub specialization? Determine carefully, who will make the best partner and whose goals align best with your own? You may not have thought about all these variables, but they impact the transaction, and quantifying them is a challenge unto itself. Take the time to build strong trusting relationships. No only is it more rewarding, but in the end, it is far more enjoyable to do business with people you trust and respect.

Who will make the best partner and whose goals align best with your own?

10. Financing

This topic could take an entire article alone and there are many that know much more than we do about financing. So we'll stick to what we do know: i) Some deals are written with a financing contingency. No financing, no deal. In today's market, that can be a serious challenge. How do you mitigate that risk? Knowledge, communications, great data, even better business plan and more than one finance partner, ii) Capital markets have changed from a year ago. While there continues to be plenty of available money on the sidelines, investors (including banks) are much more conservative and risk-averse and mezzanine lenders are looking for better returns, iii) The process is slow and painful. You thought buying your last house was complicated? Don't underestimate the hoops you will jump through and the data requests and pro-formas that must be created. And don't lose faith, it's all part of the process.

There are many other components to a successful transaction we could explore like legal issues, market dynamics, regulatory changes, joint venture options and so on, but we've taken enough of your time. The changes that the medical imaging market has undergone and will continue to see in the future are causing many to reevaluate their positions and long term strategies. We hope this paper has given you some color on the complexities of medical imaging market transactions and will be of some use in guiding your future. Choose your advisors and partners carefully, understand your strategy and goals, then communicate accurately and often and you have the keys for a successful transaction. Good Luck!

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OPERATIONAL PLANNING

Operational Assessment

Workflow Analysis

Financial Benchmarking

Customer Service Challenges

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Radiologists' Evaluation

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Project Management

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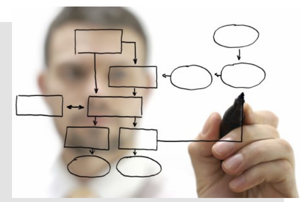

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