

RADIOLOGIX INC
Form 10-K/A
September 26, 2006

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K/A

Amendment No. 1

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005**

COMMISSION FILE NO. 0-23311

RADIOLOGIX, INC.

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

3600 JPMORGAN CHASE TOWER

2200 ROSS AVENUE

DALLAS, TEXAS 75201-2776

(Address of principal executive offices, including zip code)

(214) 303-2776

(Registrant's telephone number, including area code)

75-2648089
(I.R.S. Employer
Identification No.)

Edgar Filing: RADIOLOGIX INC - Form 10-K/A

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

| TITLE OF EACH CLASS | NAME OF EACH EXCHANGE |
|------------------------------------------------------------------|------------------------------------------------|
| Common Stock, \$0.0001 Par Value | ON WHICH REGISTERED American Stock Exchange |
| Securities registered Pursuant to Section 12(g) of the Act: None | |

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer Accelerated filer Non-accelerated filer

The aggregate market value of the Common Stock held by non-affiliates of the registrant was approximately \$100,603,972, computed by reference to the \$4.52 closing sales price of the Common Stock on the American Stock Exchange on June 30, 2005, the last business day of the registrant's most recently completed second fiscal quarter.

As of March 20, 2006, 22,442,417 shares of the registrant's Common Stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement for the 2006 Annual Meeting of Stockholders of the registrant are incorporated by reference in Part III.

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-K/A (this Amended Filing) to our Annual Report on Form 10-K for the fiscal year ended December 31, 2005, initially filed with the Securities and Exchange Commission (the SEC) on March 30, 2006 (the Original Filing), is being filed in response to comments received from the SEC. This Amended Filing amends Item 9A of the Original Filing to include a statement regarding changes in the Company s internal control over financial reporting during the fourth quarter ended December 31, 2005. In addition, this Amended Filing includes certifications from our Chief Executive Officer and Chief Financial Officer, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002 and the rules of the SEC.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures. The Company maintains disclosure controls and procedures defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act), as controls and other procedures that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO) as appropriate to allow timely decisions regarding required disclosure.

In connection with our year end close process and the preparation of this Annual Report on Form 10-K as of December 31, 2005, an evaluation was performed under the supervision and with the participation of the Company s management, including the CEO and CFO, of the effectiveness of the design and operation of the Company s disclosure controls and procedures. Based on that evaluation, the CEO and CFO have concluded that the Company s disclosure controls and procedures are ineffective at December 31, 2005 because of the material weakness in internal control over financial reporting noted below.

Management s Report on Internal Control over Financial Reporting. Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting defined in Rule 13a-15(f) under the Exchange Act as a process designed by, or under the supervision of, our CEO and CFO and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation and presentation. Therefore, even those systems determined to be effective may not prevent or detect all misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company s internal control over financial reporting as of December 31, 2005, using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control Integrated Framework*. As part of this assessment, management evaluated the controls over the procedures for accounting for lease terminations and concluded that a material weakness existed in these controls. We use these procedures to determine the accounting treatment for terminating lease contracts. In 2004, we capitalized \$13.9 million relating to the termination of the lease contract with PresGar when, in fact, it should have been expensed. Consequently, this lead to a restatement of our 2004 consolidated financial statements in this Form 10-K whereby we increased operating expense by \$13.9 million, decreased amortization expense by \$0.1 million, and decreased intangible assets by \$13.9 million. Management determined that the material weakness in the procedures for accounting for lease terminations was not remediated as of December 31, 2005. Because of this material weakness, management has concluded that the Company s internal control over financial reporting was not effective as of December 31, 2005.

Management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2005 has been audited by Ernst & Young LLP, the independent registered public accounting firm who also audited the Company's consolidated financial statements. Ernst & Young's attestation report on management's assessment of the Company's internal control over financial reporting appears on page 48 hereof.

Changes to Internal Control over Financial Reporting

As noted in our 2004 Form 10-K, subsequent to December 31, 2004, but prior to the finalization of our 2004 consolidated financial statements, the Company placed into operations new controls to address the material weakness we identified in our accounts receivable estimation process. These new controls include a retrospective collection analysis that matches cash collections to billed charges by month of service. We believe these new controls have remediated the material weakness that existed as of December 31, 2004, and that these controls operated effectively during the twelve months ended December 31, 2005.

There has been no change in the Company's internal control over financial reporting during the fourth quarter ended December 31, 2005 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

In response to a comment letter that the Company received from the staff of the Securities and Exchange Commission in connection with a customary review of the Company's Annual Report in Form 10-K for the year ended December 31, 2004, the Company has reevaluated the accounting treatment of the PresGar equipment lease financing arrangement acquired on October 31, 2004 for \$13.9 million. This was an isolated transaction, not a part of the Company's ordinary course of business. However, the Company determined that the financial statements in the 2004 Annual Report should be restated. Management has enhanced the review process by ensuring that future material unusual transactions are subject to a more thorough and detailed review. The Company has revised its accounting policy for material unusual transactions to include a review by senior financial officers and outside accounting experts if deemed necessary. Management believes that these new policies have remediated the material weakness in the Company's internal controls over financial reporting that existed as of December 31, 2005, and that these internal controls are effective at the reasonable assurance level. However, since these changes were implemented after year end, these changes did not alter the conclusion of management that our internal controls over financial reporting were ineffective at year end.

SIGNATURE PAGE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Act of 1934, Radiologix has duly caused this Amendment No. 1 on Form 10-K/A to be signed on its behalf by the undersigned, thereunto duly authorized, on September 26, 2006.

RADIOLOGIX, INC.

By: /s/ SAMI S. ABBASI

Sami S. Abbasi

President and Chief Executive Officer

INDEX TO EXHIBITS

| Exhibit Number | Description |
|---------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------|
| 31.1 | Certification of Sami S. Abbasi pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. * |
| 31.2 | Certification of Michael N. Murdock pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. * |
| 32.1 | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002 of Sami S. Abbasi. * |
| 32.2 | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002 of Michael N. Murdock. * |

* Filed herewith.