FORM 10QSB

Optional form for quarterly and transition reports of small business issuers under section 13 or 15(d)

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FILER

DIAGNOSTIC IMAGING SERVICES INC /DE
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SIC: **8071** Medical laboratories

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 10-QSB

Quarterly Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

For the Quarter Ended: September 30, 1997 Commission File Number: 33-37418

DIAGNOSTIC IMAGING SERVICES, INC.
(Exact name of registrant as specified in charter)

Delaware	33-0443404
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1516 Cotner Avenue Los Angeles, California	90025
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (310) 479-0399

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 of 15(d) of the Securities and 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 X

Number of shares outstanding of the issuer's common stock as of December 19, 1997 was 11,310,110 shares (excluding treasury shares).

Transitional Small Business Disclosure Format. Yes No X

DIAGNOSTIC IMAGING SERVICES, INC.

PART 1 - FINANCIAL INFORMATION

The condensed consolidated financial statements included herein have been prepared by the Registrant, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. However, the Registrant believes that the disclosures are adequate to make the information presented not misleading. It is suggested that these condensed financial statements be read in conjunction with the financial statements and the notes thereto included in the Registrant's latest Annual Report on Form 10-KSB.

In the opinion of the Registrant, all adjustments, consisting of normal recurring adjustments, necessary to present fairly the financial position of the Registrant as of September 30, 1997, and the results of its operations and changes in its cash flows for the nine month periods ended September 30, 1997 and 1996, have been made. The results of operations for such interim periods are not necessarily indicative of the results to be expected for the entire year.

DIAGNOSTIC IMAGING SERVICES, INC. AND AFFILIATES

CONSOLIDATED BALANCE SHEET AS OF SEPTEMBER 30, 1997.
(UNAUDITED)

<TABLE>

<S>	<C>
Assets:	
Current Assets:	
Cash	$ 81,373
Accounts Receivable - Net	4,015,973
Due from DHS	373,264
Due from Related Party	2,365,401
Other Current Assets	116,940
Total Current Assets	6,952,951
Property and Equipment - Net	10,728,853
Other Assets:	
Accounts Receivable - Net	427,527
Goodwill - Net	1,896,669
Other Intangible Assets - Net	804,424
Due from DHS-Long-Term	891,170
Other Assets	261,877
Total Other Assets	4,281,667
Total Assets	$ 21,963,471

See Notes to Consolidated Financial Statements.
</TABLE>

DIAGNOSTIC IMAGING SERVICES, INC. AND AFFILIATES

CONSOLIDATED BALANCE SHEET AS OF SEPTEMBER 30, 1997.
(UNAUDITED)

Liabilities and Shareholders' Equity:	
Current Liabilities:	
Cash Overdraft	$ 69,405
Accounts Payable	644,341
Accrued Expenses	2,571,199
Accrued Professional Fees	278,030
Due to Related Parties	133,025
Deferred Revenue-Non-Compete Agreement	100,000
Notes Payable and Capital Leases	3,909,586
Total Current Liabilities	7,705,586
Long-Term Liabilities:	
Notes Payable and Capital Leases	12,472,429
Deferred Revenue-Non-Compete Agreement	841,667
Accrued Professional Fees	27,055
Total Long-Term Liabilities	13,341,151
Total Liabilities	21,046,737
Minority Interest	278,081
Commitments and Contingencies	--
Shareholders' Equity:	
Preferred Stock-Series F, $.01 par value, 5,000,000 shares authorized, 2,482,000 shares issued and outstanding, stated liquidation preference of $2,482,000	24,820
Preferred Stock-Series G, $.01 par value, 5,000,000 shares authorized, 2,000,000 shares issued and outstanding, stated liquidation preference of $2,000,000	20,000
Common Stock - $.01 Par Value, 20,000,000 Shares authorized; 11,463,956 issued, and 11,310,110 shares outstanding	114,639
Additional Paid-In Capital-Common Stock	4,251,059
Additional Paid-In Capital-Preferred Stock - Series F	226,409
Additional Paid-In Capital-Preferred Stock - Series G	182,441
Stock Purchase Warrants	1,175,317
Subscriptions Receivable	(10,994)
Accumulated Deficit	(5,343,500)
Treasury Stock - 153,846 Shares of Common Stock, At Cost	(1,538)
Total Shareholders' Equity	638,653
Total Liabilities and Shareholders' Equity	$ 21,963,471

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</TABLE>

See Notes to Consolidated Financial Statements.

DIAGNOSTIC IMAGING SERVICES, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

<TABLE>

	Nine months ended September 30, 1997	Nine months ended September 30, 1996
Revenue:		
<S>	<C>	<C>
Net Patient Service Revenue	$ 11,148,196	$ 17,017,250
Expenses:		
Cost of Services	8,148,204	12,823,365
General and Administrative	1,859,305	2,646,789
Depreciation and Amortization	1,925,141	2,932,609
Total Expenses	11,932,650	18,402,763
Operating (Loss)	(784,454)	(1,385,513)
Other Revenue (Expenses):		
Gain on Sale or Divestiture	8,754,752	514,631
Miscellaneous (Expense)	(72,983)	--
Interest Income	400,752	--
Interest Expense	(1,713,427)	(2,664,710)
Total Other Revenue (Expenses)	7,369,094	(2,150,079)
Income (Loss) Before Tax and Minority Interest in (Income) Loss of Subsidiaries	6,584,640	(3,535,592)
Minority Interest in (Income) Loss of Subsidiaries	(103,081)	64,208
Income (Loss) before Income Tax	$ 6,481,559	$ (3,471,384)
Net Income (Loss) Per Share	$ .57	$ (.33)

Weighted Common Shares Outstanding	11,310,110	10,464,728

See Notes to Consolidated Financial Statements.
</TABLE>

DIAGNOSTIC IMAGING SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(UNAUDITED)

<TABLE>

	Common Stock		Preferred Stock Series F		Preferred Stock Series G		Treasury Stock	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount
Balance - December 31, 1996	11,463,956	$114,639	2,482,000	$24,820	2,000,000	$20,000	(153,846)	$(1,538)
Payment of Dividends on Preferred Stock	--	--	--	--	--	--	--	--
Net Income for the nine months ended September 30, 1997	--	--	--	--	--	--	--	--
Balance - September 30, 1997 (Unaudited)	11,463,956	$114,639	2,482,000	$24,820	2,000,000	$20,000	(153,846)	$(1,538)

</TABLE>
<TABLE>

	Paid-in Capital-Common Stock	Paid-in Capital-Series F Preferred Stock	Paid-in Capital-Series G Preferred Stock	Purchase Warrants	Subscriptions Receivable	Accumulated Deficit	Total
Balance - December 31, 1996	$4,251,059	$226,409	$182,441	$1,175,317	$(10,994)	$(11,600,959)	$(5,618,806)
Payment of Dividends on Preferred Stock	--	--	--	--	--	(224,100)	(224,100)
Net Income for the							

nine months ended September 30, 1997	--	--	--	--	--	6,481,559	6,481,559
Balance - September 30, 1997 (Unaudited)	$4,251,059	$226,409	$182,441	$1,175,317	$(10,994)	$ (5,343,500)	$ 638,653

See Notes to Consolidated Financial Statements.

</TABLE>

DIAGNOSTIC IMAGING SERVICES, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

<TABLE>

	Nine months ended September 30, 1997	1996
<S>	<C>	<C>
Net Cash - Operating Activities	$ (2,257,780)	$ 97,511
Investing Activities:		
Purchase of Property and Equipment	(398,546)	(139,207)
Proceeds from Sales of Divisions and Assets	15,227,720	1,028,000
Acquisitions and Increases in Joint Venture Interest	(251,875)	(200,000)
Payments for Deposits and Other Assets	(107,449)	(272,645)
Loans to Related Party	(5,419,305)	--
Proceeds on Loans to Related Party	3,053,904	--
Net Cash - Investing Activities	12,104,449	416,148
Financing Activities:		
Cash Overdraft	(921,231)	659,406
Proceeds from Borrowings on Notes Payable	224,100	1,571,775
Principal Payments on Notes and Leases	(7,094,078)	(7,452,110)
Proceeds from the Issuance of Common Stock	--	3,000,000
Payments of Dividends on Preferred Stock	(224,100)	--
Proceeds from Joint Venture Partners	175,000	--
Payments to Joint Venture Partners	--	(52,500)
Loans from Related Parties	--	1,769,325
Payments on Loans from Related Parties	(1,937,645)	(21,707)
Net Cash - Financing Activities	(9,777,954)	(525,811)
Net Increase (Decrease) in Cash	68,715	(12,152)

Cash - Beginning of Periods	12,658	17,993
Cash - End of Periods	$ 81,373	$ 5,841
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the periods for:		
Interest	$ 1,979,599	$ 3,034,977
Income Taxes	$ --	$ --

</TABLE>

Supplemental Schedule of Noncash Investing and Financing Activities:
The Company entered into capital leases of approximately $650,000 and $1,315,000 during the nine months ended September 30, 1997 and 1996, respectively.

During the nine months ended September 30, 1997, the Company sold substantially all of the net assets of four of its hospital-based MRI facilities and its Ultrasound Division to Diagnostic Health Services, Inc. ("DHS") effective March 1, 1997. The sale reduced net property and equipment approximately $9.3 million, notes and capital leases payable approximately $7.5 million and net goodwill and other intangible assets approximately $4.6 million.

During the nine months ended September 30, 1996, the Company acquired medical equipment of approximately $395,000 as part of the Healthcare Imaging Center ("HCI") acquisition along with the assumption of notes payable of approximately $160,000 and accounts payable and accrued expenses of approximately $45,000 thereon.

During the nine months ended September 30, 1997, the Company recognized gains on reductions in historically accrued professional fees of approximately $650,000.

See Notes to Consolidated Financial Statements.

(1) Summary of Significant Accounting Policies

Significant accounting policies of Diagnostic Imaging Services, Inc. and its affiliates are set forth in the Company's Form 10-KSB for the year ended December 31, 1996 as filed with the Securities and Exchange Commission.

(2) Basis of Presentation

The accompanying interim consolidated financial statements are unaudited and have been prepared in accordance with generally accepted accounting principles and the instructions to Form 10-QSB and Rule 10-01 of Regulation S-X and , therefore, do not include all information and footnotes necessary for a fair presentation of financial position, results of operations and cash flows in conformity with generally accepted accounting principles for complete financial statements; however, in the opinion of the management of the Company, all adjustments consisting of normal recurring adjustments necessary for a fair presentation of financial position, results of operations and cash flows for the interim periods ended September 30, 1997 and 1996 have been made. The results of operations for any interim period are not necessarily indicative of the results for the full year. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Registrant's annual report on Form 10-KSB for the fiscal year ended December 31, 1996.

(3) Intangible Assets

The Company's goodwill of $1,896,669 as of September 30, 1997 is shown net of accumulated amortization of $305,735. Amortization expense for the nine months ended September 30, 1997 and 1996 was approximately $110,000 and $320,000, respectively. During the nine months ended September 30, 1997, fifteen more units, or approximately 19%, of Temecula Valley Imaging Center ("TVIC") were purchased from North Coast Associates for $196,875, and the Company purchased the remaining 25% interest in Valley Regional Oncology Center ("VROC") for $260,000 (of which $240,000 was paid in November 1997). In addition, approximately $4.1 million of net goodwill was written-off in conjunction with the sale to DHS (see Note 5).

Other Intangible Assets consist primarily of covenants not to compete, loan fees and organization costs. The Company's covenants not to compete of $146,667 as of September 30, 1997 are shown net of accumulated amortization of $403,333. Amortization expense for the nine months ended September 30, 1997 and 1996 was approximately $125,000 and $295,000, respectively. Approximately $500,000 of net covenants were written-off in conjunction with the sale to DHS (see Note 5). Organization costs and loan fees of $657,757 are shown net of accumulated amortization of $330,333. Amortization expense for the nine months ended September 30, 1997 and 1996 was approximately $105,000 and $125,000, respectively. Loan fees of approximately $6,000 were written off in conjunction with the sale to DHS (see Note 5).

(4) Due to/from Related Party

At September 30, 1997, DIS repaid Primedex Health Systems, Inc. ("PHS") approximately $1.9 million with the proceeds from the sale to DHS (see Note 5). The repayment was primarily for short-term working capital loans and accrued management fees. In addition, DIS loaned PHS approximately $5,500,000 on April 18, 1997 with principal due and payable on or before March 31, 1998 with 10% interest per annum. As of September 30, 1997, PHS owed DIS approximately $2,365,000 on this loan.
In addition, TVIC and VROC owe PHS approximately $133,000 for operating expenses.

During the nine months ended September 30, 1997, DIS fully repaid an officer of the Company approximately $89,000 for prior loans made by him to the Company.

(5) Business Combinations, Acquisitions, Sales and Divestitures

Effective January 1, 1997, the assets and related liabilities of Montclair Mobile MRI were assumed by Primedex Health Systems, Inc.. The transfer resulted in a gain of approximately $97,000 allowing DIS to write-off a reserve established in 1996 for estimated disposal costs related to the mobile unit.

On January 1, 1997, the Company and Scripps Health, San Diego completed their project for the development and operation of an outpatient radiological facility providing MRI services and began seeing its first patients. The Company and ScrippsHealth are equal partners in the Scripps Chula Vista Imaging Center, LLP ("SCV") with the Company serving as managing partner.

Effective March 1, 1997, the Company sold the assets of its ultrasound division to Diagnostic Health Services, Inc. ("DHS") for approximately $8,040,000 less assumed debt of approximately $1,520,000; the net cash proceeds of approximately $6,520,000 were received in March 1997. In addition, DHS paid the Company $500,000 in March 1997 for a ten-year covenant not-to-compete.

In addition, also effective March 1, 1997, DHS purchased the stock of Diagnostic Imaging Services, Inc. (California), including three hospital-based MRI centers and Santa Monica Imaging Center (a partnership), for $13,500,000 less assumed debt of approximately $6,045,000; the net cash proceeds of approximately $7,455,000 were received in April 1997 with 12% interest of approximately $130,000 accrued from the March 1, 1997 effective sale date. In addition, DHS paid the Company an additional $500,000 in April 1997 for a ten-year covenant not-to-compete. Both covenants not-to-compete are classified as "Deferred Revenue" on the Company's balance sheet.

In addition to the proceeds from the MRI sites sold above, there are post closing payments of $500,000 to be paid by DHS at the end of each year on the first, second and third anniversaries of the closing date. A discounted receivable of approximately $1,190,000 was set-up on the Company's balance sheet for these "post-closing payments" of which approximately $373,000 are classified as current assets. During the nine months ended September 30, 1997, interest income of approximately $70,000 was recognized on the deferred receivable. There is also an option to receive the "post-closing payments" in the form of common stock of DHS valued at the mean average of the reported closing price of such common stock as reported on the NASDAQ National Market for the five consecutive trading days ending on the third day immediately prior to the closing date ("the Agreed Value"). The combined sales to DHS resulted in a net gain of approximately $8,260,000 recorded in March 1997.

In May 1997, the Company acquired the assets of Las Posas Medical Imaging for $35,000 and assumed the building lease for the facility. The Company moved the assets and business of its Camarillo facility to this location using Camarillo's prior space for warehouse storage.

As a result of a continuing deteriorating business climate and other business reasons at the Company's Santa Monica ("Parkside") facility, the Company ceased substantially all of its operations at the facility on August 29, 1997. The Company was paid approximately $465,000 for the assets at the site (of which $255,000 was received during the nine months ended September 30, 1997) and the building lease liability was assumed by an unrelated third party. A loss of approximately $3,425,000 was recognized in December 1996 and a gain of $400,000 was recognized in August 1997 for settlement proceeds received on assets previously written-off. As a result of the closing, the assets and related liabilities of WLA will be transferred to PHS's RadNet Management, Inc. in the fourth quarter of 1997. The Company still operates a separate entity known as Parkside Women's Center which provides ultrasound, mammography, stereotactic breast biopsy and bone densitometry services.

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(6) Sale of Stock and Securities

On March 25, 1996, DIS issued 2,747,493 shares of its common stock (with a five-year warrant to purchase an additional 1,521,739 shares of the Company's common stock at $1.60 per share) to Primedex Health Systems, Inc. ("PHS") for $3,000,000 and the establishment of a five-year revolving $1,000,000 line of credit for DIS. PHS is a publicly-traded New York corporation organized in 1985 and is principally engaged in the healthcare services industry in California. As of September 30, 1997, through various transactions with related and unrelated parties since March 1996, PHS acquired an additional 5,154,477 shares of DIS common stock bringing its total ownership to 7,901,970 shares, or approximately 68.9%. In subsequent purchases through December 19, 1997, PHS acquired an additional 128,000 common shares in transactions with unrelated parties increasing its total ownership of DIS to 8,029,970 shares, or approximately 70.1%.

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Background

Diagnostic Imaging Services, Inc. ("DIS" or the "Company") was incorporated in California as an S-Corporation on June 27, 1986. In 1992, the Company's consolidated operations consisted of non-invasive diagnostic imaging services, primarily with the use of ultrasound technology ("Ultrasound Division"). During 1992 and 1993, DIS established one mobile MRI business and was the general partner of four limited partnerships that provided diagnostic imaging services: San Gabriel Valley Magnetic Resonance Imaging Center ("SGV"), Tarzana Regional Medical Center Magnetic Resonance Imaging Center ("Tarzana"), Inland Community Magnetic Resonance Imaging Center ("Inland") and Temecula Valley Imaging Center ("Temecula"). DIS also provided management services for these entities.

In June 1993, DIS became the general partner and 70% owner of Mission Bay Mobile MRI Facility, L.P. ("MBM"). In March 1996, MBM's assets and liabilities were assumed by an unaffiliated third party; the transfer resulted in a gain of approximately $296,000. In December 1993, Norman Hames, President and Chief Financial Officer of DIS, assigned his shares in a privately held company, Diagnostic Imaging Services, Inc. ("Diagnostic") to a newly established corporation, DIS Imaging, Inc., of which he was the sole shareholder. In January 1994, DIS Imaging, Inc. purchased the shares held by the then majority shareholder of Diagnostic and all of his interests in certain partnerships which Diagnostic managed.

During the months of January and February 1994, DIS purchased the remaining limited partnership units of Tarzana, SGV and Inland. Additionally, in February

1994, DIS purchased the assets of two freestanding multi-modality imaging centers: Thousand Oaks Medical Diagnostic Imaging ("MDI") and Parkside Radiology ("Santa Monica" or "Parkside"). In April 1994, DIS opened Valley Regional Oncology Center, Ltd., L.P. ("VROC"), a cancer care therapy center located in Temecula, California. DIS was the general partner and 75% owner of VROC. During the nine months ended September 30, 1997, the Company purchased the remaining 25% interest in VROC for $260,000 (of which $240,000 was paid in November 1997). On September 2, 1994, DIS merged its operations with IPS Health Care, Inc. pursuant to an Agreement and Plan of Reorganization and an Agreement for the Exchange of Stock and Assets (see Company's Form 10-KSB for the year ended December 31, 1994). The Company's name was then changed to Diagnostic Imaging Services, Inc.. On September 22, 1994, DIS purchased the assets of North County MRI and North County Mediscan ("North County" collectively). The nuclear medicine business at North County Mediscan was sold for $230,000 in June 1996.

In January 1995, DIS assumed ownership of West Los Angeles MRI ("WLA"). In the first quarter of 1995, Inland was relocated from Montclair to Chino, California ("Chino"). During this time, the center was closed for approximately two months. In February 1995, DIS purchased the outstanding limited partnership units of Santa Monica Imaging Center ("SMIC") and became its general partner. In April 1997, DIS purchased the remaining partnership units in SMIC for $300,000. In August 1995, DIS purchased the assets of an X-Ray, mammography, and basic ultrasound center in Murrieta, California ("Murrieta"). Murrieta was closed in late 1996.

Background (Continued)

On March 25, 1996, DIS issued 2,747,493 shares of its common stock (with a five-year warrant to purchase an additional 1,521,739 shares of common stock at $1.60 per share) to Primedex Health Systems, Inc. ("PHS") for $3,000,000 and the establishment of a five-year revolving $1,000,000 line of credit for DIS. PHS is a publicly-traded New York corporation organized in 1985 and is principally engaged in the healthcare services industry in California. DIS also entered into two five-year management service agreements with PHS. The first agreement relates to DIS's overall corporate operations and provides that PHS will provide for all office maintenance for the DIS facilities, administer its personnel program, bookkeeping and payroll services as well as certain of its accounting services. In addition, PHS provides advice to DIS with regard to its accreditation program and negotiates on behalf of DIS for equipment, supplies, service and insurance. DIS agreed to pay $45,000 per month for these services. Additionally, DIS entered into a second agreement which will be phased in on a center by center basis which provides for PHS to supply transcription services, patient scheduling, billing and collection services. All costs of equipment and training are the responsibility of PHS. DIS will pay PHS an amount equal to 10% of its collections from each covered center for such services. As of September 30, 1997, through various transactions with related and unrelated parties, PHS acquired an additional 5,154,477 shares of DIS common stock bringing its total ownership to 7,901,970 shares, or approximately 68.9%.

In May 1996, Integrated Cardiovascular Systems, Inc. ("ICVS") was sold to an unaffiliated third party for $798,000 resulting in a gain of approximately $313,000. In addition, the Company also consolidated SMIC's non-MRI business with Parkside during the month. In August 1996, DIS acquired the assets and liabilities of HealthCare Imaging Center ("HCI") in Riverside, California for $200,000 resulting in goodwill of $10,000. In September 1996, DIS opened the Camarillo Imaging Center ("Camarillo"), a start-up operation utilizing equipment transferred from other sites. In October 1996, DIS assumed the assets and liabilities of Corona Imaging Center ("Corona").

Effective January 1, 1997, the assets and related liabilities of Montclair Mobile MRI were assumed by Primedex Health Systems, Inc. The transfer resulted in a gain of approximately $97,000 allowing DIS to write-off a reserve set-up in 1996 for estimated disposal costs related to the mobile unit.

On January 1, 1997, the Company and ScrippsHealth, San Diego completed their project for the development and operation of an outpatient radiological facility providing MRI services and began seeing its first patients. The Company and ScrippsHealth will be equal partners in the Scripps Chula Vista Imaging Center, LLP ("SCV") with the Company serving as managing partner.

Effective March 1, 1997, the Company sold the assets of its ultrasound division to Diagnostic Health Services, Inc. ("DHS") for approximately $8,040,000 (less assumed debt of approximately $1,520,000) plus $500,000 for a ten-year covenant not-to-compete. In addition, DHS purchased the stock of Diagnostic Imaging Services, Inc. (California), including three hospital-based MRI centers (Tarzana, Chino and SGV) and Santa Monica Imaging Center (SMIC), for $13,500,000 (less assumed debt of approximately $6,045,000) plus an additional $500,000 for a ten-year covenant not-to-compete. In addition to the proceeds from the MRI sites sold above, there are post closing payments of $500,000 to be paid by DHS at the end of each year on the first, second and third anniversaries of the closing date. The combined sales to DHS resulted in a net gain of approximately $8,260,000 recorded in March 1997. DHS also assumed the building lease liability at the Company's WLA facility; the MRI at WLA was to be moved to Parkside.

In May 1997, the Company acquired the assets and assumed liabilities of Las Posas Medical Imaging for $35,000 and relocated its Camarillo facility and its related business to this site.

Background (Continued)

As a result of a continuing deteriorating business climate and other business reasons at the Company's Santa Monica ("Parkside") facility, the Company ceased substantially all of its operations at the facility on August 29, 1997. The Company received approximately $465,000 in cash and other receivables for the assets at the site and the building lease liability was assumed by an unrelated third party. A loss of approximately $3,425,000 was recognized in December 1996; a subsequent gain of approximately $400,000 was recognized in August 1997 for the recovery of assets previously written off. As a result of the closing, the assets and related liabilities of WLA will now be transferred to PHS's RadNet Management, Inc. for use at its site in Stockton, California.

Discussion of Operations for the Quarter Ended September 30, 1997 vs. September 30, 1996

The following discussion relates to the continuing activities of Diagnostic Imaging Services, Inc.

Results of Operations

For the nine months ended September 30, 1997 and 1996, the Company had operating losses of approximately $785,000 and $1,385,000, respectively. The income improvement was primarily attributable to decreases in operating expenditures over and above those decreases related to the sale of certain sites to DHS (see Note 5) including a reduction in depreciation and amortization expense of approximately $1,000,000.

Net revenue was approximately $11,150,000 and $17,000,000 for the nine months ended September 30, 1997 and 1996, respectively. Total operating expenses were approximately $11,930,000 and $18,400,000 for the nine months ended September 30, 1997 and 1996, respectively. The majority of the decreases in revenue and related operating expenses were due to the sale of four of the Company's MRI facilities and its Ultrasound Division to DHS in 1997 (see Note 5) and the sales of ICVS, North County's nuclear medicine business and MBM in 1996. During the nine months ended September 30, 1997 and 1996, the "DHS sale" sites generated approximately $1,585,000 and $7,440,000 in net revenues, respectively, and incurred approximately $910,000 and $5,000,000 in operating expenses (excluding depreciation and amortization), respectively. Other expense decreases were primarily attributable to benefits obtained from reductions in historically accrued professional fees as well as reductions in staffing and related salaries and benefits.

For the nine months ended September 30, 1997 and 1996, interest expense was approximately $1,710,000 and $2,665,000, respectively. Interest expense of DIS is primarily attributable to equipment financing and lines of credit charges of which outstanding principal balances decreased by approximately $13.8 million from September 1996 to September 1997. During the nine months ended September 30, 1997 and 1996, interest income was approximately $400,000 and $-0-, respectively. Approximately $130,000 of interest was paid by DHS (see Note 5), approximately $70,000 was earned on DHS's deferred receivable (see Note 5) and approximately $200,000 of interest was earned on PHS loans (see Note 4).

During the nine months ended September 30, 1997, the Company recognized gains from sales or divestiture of approximately $8,755,000; approximately $8,260,000 of the gain related to the sale to DHS (see Note 5), approximately $97,000 related to the transfer of Montclair Mobile's assets and related liabilities to PHS, and approximately $400,000 related to the Parkside closing (see Note 5). During the nine months ended September 30, 1996, the Company recognized gains from sales or divesture of approximately $515,000.

For the nine months ended September 30, 1997, the Company had net income of approximately $6,480,000 compared to a net loss of $(3,475,000) for the nine months ended September 30, 1996.

Liquidity and Capital Resources

Cash increased for the nine months ended September 30, 1997 by $68,715. Cash decreased for the nine months ended September 30, 1996 by $12,152.

Cash generated from investing activities for the nine months ended September 30, 1997 and 1996 was approximately $12,105,000 and $415,000, respectively. During the nine months ended September 30, 1997, DIS received approximately $14,975,000 from the sale to DHS (see Note 5) and approximately $255,000 from the sale of assets at Parkside. During the nine months ended September 30, 1996, DIS received approximately $1,030,000 from the sales of ICVS and the nuclear medicine business at North County. During the nine months ended September 30, 1997, the Company acquired fifteen more units of TVIC for $196,875, paid $35,000 for the acquisition of Las Posas Medical Imaging and paid $20,000 for an additional 5% interest in VROC. During the nine months ended September 30, 1996, the Company acquired the assets of HCI for $200,000. During the nine months ended September 30, 1997 and 1996, the Company paid approximately $400,000 and $140,000, respectively, for property and equipment, and approximately $110,000 and $270,000, respectively, for deposits and other assets.

Cash utilized for financing activities for the nine months ended September 30, 1997 and 1996 was approximately $9,775,000 and $525,000, respectively. For the nine months ended September 30, 1997, approximately $1,938,000 in payments were made to related parties (see Note 4). During the nine months ended September 30, 1996, the Company borrowed approximately $1,770,000 from related parties and repaid approximately $22,000 on prior related party loans. During the nine months ended September 30, 1997 and 1996, the Company made principal payments on notes and capital leases of approximately $7,100,000 and $7,450,000, respectively, and borrowed on notes payables approximately $225,000 and $1,570,000, respectively. During the nine months ended September 30, 1997, the Company reduced its cash overdraft approximately $920,000, paid dividends on preferred stock of $224,100 and received $175,000 from a joint venture partner. During the nine months ended September 30, 1996, the Company increased its cash overdraft by approximately $660,000, received proceeds from the issuance of common stock of $3,000,000, and paid joint venture partners $52,500.

At September 30, 1997, the Company had a net working capital deficit of $752,635, an increase of $13,517,622 from December 31, 1996. A key reason for the increase was due to the sale of the Company's Ultrasound Division and MRI sites to DHS (see Note 5).

In June 1994, the Company entered into a revolving term note agreement with a financial institution, which, at the time, was also a shareholder of the Company, to replace a previous line of credit agreement dated January 1994. The revolving term note was collateralized by all eligible accounts receivable as defined in the agreement. In September 1997, the line of credit was paid in full and closed at the Company's request. The Company also has a $1,000,000 credit facility available with PHS. As of September 30, 1997, $-0- was outstanding under this line.

The Company's future payments for debt and equipment under capital leases for the next five years will be approximately $5,850,000, $5,475,000, $4,330,000, $3,910,000 and $685,000, respectively. Interest expense for the Company for the next five years, included in the above payments, will be approximately $1,940,000, $1,105,000, $715,000, $310,000 and $10,000, respectively.

Note Regarding Forward - Looking Statements

This Quarterly Report contains historical information as well as forward-looking statements. Statements looking forward in time are included in this Quarterly Report pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. Such statements involve known and unknown risks and uncertainties that may cause the Company's actual results in future periods to be materially different from any future performance suggested herein.

PART II

Item 5. Other Information

On April 18, 1997, Registrant loaned $5,500,000 to Primedex Health Systems, Inc. (owner of approximately 70.1% of Registrant's outstanding common stock), payable monthly interest only at 10% per annum, with principal due and payable on or before March 31, 1998. As of September 30, 1997, PHS had repaid the Registrant approximately $3,200,000 on this loan.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Diagnostic Imaging Services, Inc.
(Registrant)

December 23, 1997

By: /s/ Norman Hames
Norman Hames, President

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This schedule contains summary financial information extracted from the consolidated balance sheet and the consolidated statement of operations and is qualified in its entirety by reference to such financial statements
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