

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 10-Q**

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

**For the quarterly period ended June 30, 2012**

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
for the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 333-136436

**DIAGNOSTIC IMAGING INTERNATIONAL CORP.**

*(Exact name of registrant as specified in charter)*

**NEVADA**

*(State or other jurisdiction of incorporation or organization)*

**98-0493698**

*(I.R.S. Employer Identification No.)*

**848 N. Rainbow Blvd #2494, Las Vegas, Nevada**

*Address of principal executive offices*

**89107**

*(Zip Code)*

Registrant's telephone number, including area code (877) 331-3444

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Non-accelerated filer  (Do not check if smaller reporting company)

Accelerated Filer

Smaller Reporting Company

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

As of August 20, 2012 the Company had outstanding 18,106,481 shares of its common stock.

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**Item 1. Consolidated Financial Statements**
**Diagnostic Imaging International Corp.  
Consolidated Balance Sheets**

	June 30, 2012 (Unaudited)	December 31, 2011
<b>ASSETS</b>		
Current Assets		
Cash and Cash Equivalents	\$ 45,220	\$ 54,504
Accounts Receivable, net	145,301	137,744
Prepaid Expenses	5,692	7,144
Total Current Assets	<u>196,213</u>	<u>199,392</u>
Property and Equipment		
Equipment	68,842	103,136
Less: Accumulated Depreciation	<u>(68,842)</u>	<u>(101,762)</u>
Total Property and Equipment, net	<u>-</u>	<u>1,374</u>
Intangibles		
Hospital Contracts	794,707	794,707
Non-Compete Contract	105,328	105,328
Less: Accumulated Amortization	<u>(708,013)</u>	<u>(650,406)</u>
Total Intangible Assets, net	<u>192,022</u>	<u>249,629</u>
Other Assets		
Deposits	4,922	4,932
Loans Receivable	2,122	966
Total Other Assets	<u>7,044</u>	<u>5,898</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 395,279</u></b>	<b><u>\$ 456,293</u></b>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
Current Liabilities		
Accounts Payable and Accrued Expenses	\$ 240,851	\$ 230,873
Promissory Notes	75,589	84,590
Note Payable - Shareholder	7,062	7,062
Convertible Note - Shareholder, net short term portion	16,911	19,960
Convertible Notes, net short term portion	<u>131,073</u>	<u>166,333</u>
Total Current Liabilities	<u>471,486</u>	<u>508,818</u>
Long Term Liabilities		
Total Long Term Liabilities	<u>-</u>	<u>-</u>
Total Liabilities	<u>471,486</u>	<u>508,818</u>
Stockholders' Equity		
Preferred Stock-\$0.001 par value; 5,000,000 shares authorized, no shares issued and outstanding at June 30, 2012 and December 31, 2011	-	-
Common Stock-\$0.001 par value; 100,000,000 shares authorized, 18,106,481, shares issued and outstanding at June 30, 2012 and December 31, 2011	18,107	18,107
Additional Paid-In Capital	1,597,766	1,597,413
Accumulated Other Comprehensive Gain	3,937	3,046
Accumulated Deficit	<u>(1,696,017)</u>	<u>(1,671,091)</u>
Total Stockholders' Deficit	<u>(76,207)</u>	<u>(52,525)</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b><u>\$ 395,279</u></b>	<b><u>\$ 456,293</u></b>

*The accompanying notes are an integral part of these consolidated financial statements.*

**Diagnostic Imaging International Corp.**  
**Consolidated Statements of Operations (Unaudited)**

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>June 30,</u> <u>2012</u>	<u>June 30,</u> <u>2011</u>	<u>June 30,</u> <u>2012</u>	<u>June 30,</u> <u>2011</u>
<b>Revenue:</b>				
Sales	\$ 832,016	\$ 968,307	\$ 1,642,654	\$ 1,871,258
Less: Cost of sales	<u>678,594</u>	<u>793,297</u>	<u>1,344,031</u>	<u>1,546,169</u>
Gross Margin	153,422	175,010	298,623	325,089
<b>Operating Expenses:</b>				
Advertising	379	170	1,672	1,010
Amortization	28,804	28,804	57,607	57,607
Depreciation	-	370	1,388	735
General and Administrative	10,351	8,147	26,017	19,754
Insurance	5,120	5,129	10,286	9,927
Labor	28,311	31,120	57,120	58,979
Legal and professional	32,820	26,922	46,705	57,120
Management fees	2,390	2,383	4,782	4,790
Rent Office Space and Servers	23,807	24,708	47,691	49,148
Travel	377	27	5,954	2,926
Total Operating Expenses	<u>132,359</u>	<u>127,780</u>	<u>259,222</u>	<u>261,996</u>
Net Gain / (Loss) from Operations	<u>21,063</u>	<u>47,230</u>	<u>39,401</u>	<u>63,093</u>
<b>Other Income and (Expenses):</b>				
Other Income	19,943	-	20,240	-
Foreign Currency Gains/(Losses)	2,174	(963)	(2,857)	(9,850)
Amortization of Debt Discount	(8,363)	(26,286)	(30,623)	(52,572)
Interest Expense	<u>(5,543)</u>	<u>(9,951)</u>	<u>(12,161)</u>	<u>(21,277)</u>
Total Other Income/(Expenses)	8,211	(37,200)	(25,401)	(83,699)
Income (Loss) Before Provision for Income Taxes	29,274	10,030	14,000	(20,606)
Provision for Income Taxes	(38,926)	-	(38,926)	-
Net Income / (Loss)	(9,652)	10,030	(24,926)	(20,606)
Other Comprehensive Income (Loss)	(559)	664	891	1,436
Total Comprehensive Income (Loss)	<u>\$ (10,211)</u>	<u>\$ 10,694</u>	<u>\$ (24,035)</u>	<u>\$ (19,170)</u>
Basic and Diluted Income (Loss) per Share	<u>\$ (0.001)</u>	<u>\$ 0.001</u>	<u>\$ (0.001)</u>	<u>\$ (0.001)</u>
<b>Weighted Average Shares Outstanding:</b>				
Basic and Diluted	<u>18,106,481</u>	<u>18,056,481</u>	<u>18,106,481</u>	<u>18,056,481</u>

*The accompanying notes are an integral part of these consolidated financial statements.*

**Diagnostic Imaging International Corp.**  
**Consolidated Statements of Cash Flows (Unaudited)**

	<b>Six Months Ended</b>	
	<b>June 30, 2012</b>	<b>June 30, 2011</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net Loss	\$ 24,926	\$ (20,606)
Adjustments to Reconcile Net Loss to Net Cash provided by Operating Activities:		
Depreciation	1,388	735
Accrued Interest Converted into note	10,354	18,517
Interest imputed on shareholder loan	353	357
Amortization of Debt Discount	30,623	52,574
Amortization of Intangible Assets	57,607	57,607
Foreign currency transaction Gain/ Loss	1,137	8,050
Changes in operating assets and liabilities:		
Accounts Receivable	(7,557)	(24,723)
Deposits and prepaid expenses	1,452	1,796
Accounts Payable and accrued liabilities	9,978	21,035
Loans Receivable	(1,156)	(1,851)
<b>NET CASH AND CASH EQUIVALENTS PROVIDED BY OPERATING ACTIVITIES</b>	<b>79,253</b>	<b>113,491</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
	-	-
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>-</b>	<b>-</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Principal payments on Related Party debt	(9,395)	(15,735)
Principal payments on debt	(95,033)	(67,866)
Proceeds from debt issuance	15,000	49,825
Settlement payment	-	(45,862)
<b>NET CASH AND CASH EQUIVALENTS USED IN FINANCING ACTIVITIES</b>	<b>(89,428)</b>	<b>(79,638)</b>
Gain due to foreign currency translation	891	1,437
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>(9,284)</b>	<b>35,290</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>54,504</b>	<b>19,671</b>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>\$ 45,220</b>	<b>\$ 54,961</b>
Cash paid during the year for:		
Interest	\$ 1,807	\$ 2,759
Income Taxes	\$ -	\$ -

*The accompanying notes are an integral part of these consolidated financial statements.*

**Diagnostic Imaging International Corp.**  
**Notes to Consolidated Financial Statements (Unaudited)**  
**June 30, 2012**

**Note 1. Organization and Summary of Significant Accounting Policies**

**Organization and Basis of Presentation**

Diagnostic Imaging International Corp. (“DIIC” or the “Company”), a Nevada Corporation, was incorporated in 2000. In 2005, the Company developed a business plan for private healthcare opportunities in Canada with the objective of owning and operating private diagnostic imaging clinics. In 2009, the Company purchased Canadian Teleradiology Services, Inc. (“CTS”) a company that provides remote reading of diagnostic imaging scans for rural hospitals and clinics. In early 2010, the Company modified its business plan to grow its CTS subsidiary while planning for the acquisition of existing full service imaging clinics located in the United States and exploring the development of new diagnostic imaging technology.

**Basis of Presentation**

These consolidated financial statements and related notes are presented in accordance with accounting principles generally accepted in the United States, and are expressed in U.S. dollars. The Company’s fiscal year-end is December 31.

**Principle of Consolidation**

The consolidated financial statements include the accounts of Diagnostic Imaging International, Corp. and our wholly-owned subsidiary, Canadian Teleradiology Services, Inc. (CTS), intercompany accounts and transactions have been eliminated in the consolidated financial statements. CTS’ accumulated earnings prior to the date of acquisition (March 2, 2009) were not included in the consolidated balance sheet.

**Reclassification of Accounts**

Certain prior period amounts have been reclassified to conform to June 30, 2012 presentation.

**Use of Estimates and Assumptions**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States (“GAAP”) requires management to make estimates and assumptions that affect (i) the reported amounts of assets and liabilities, (ii) the disclosure of contingent assets and liabilities known to exist as of the date the financial statements are published, and (iii) the reported amount of net sales, expenses and costs recognized during the periods presented. Adjustments made with respect to the use of estimates often relate to improved information not previously available. Uncertainties with respect to such estimates and assumptions are inherent in the preparation of financial statements; accordingly, actual results could differ from these estimates.

**Cash and Cash Equivalents**

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. At June 30, 2012, and December 31, 2011, cash includes cash on hand and cash in the bank.

**Accounts Receivable Credit Risk**

The allowance for doubtful accounts is maintained at a level sufficient to provide for estimated credit losses based on evaluating known and inherent risks in the receivables portfolio.

Management evaluates various factors including expected losses and economic conditions to predict the estimated realization on outstanding receivables. As of June 30, 2012, and December 31, 2011 there was no allowance for bad debts. As of June 30, 2012, and December 31, 2011, four customers totaled approximately 90% of the total accounts receivable.

## **Goodwill and Indefinite Intangible Assets**

The Company follows the provisions of Financial Accounting Standard (“FASB”), Accounting Standards Codification (“ASC”) Topic 350, *Goodwill and Other Intangible Assets*. In accordance with ASC Topic 350, goodwill, representing the excess of the purchase price and related costs over the value assigned to net tangible and identifiable intangible assets of businesses acquired and accounted for under the purchase method, acquired in business combinations is assigned to reporting units that are expected to benefit from the synergies of the combination as of the acquisition date. Under this standard, goodwill and intangibles with indefinite useful lives are not amortized. The Company assesses goodwill and indefinite-lived intangible assets for impairment annually during the fourth quarter, or more frequently if events and circumstances indicate impairment may have occurred in accordance with ASC Topic 350. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, the Company records an impairment loss equal to the difference. ASC Topic 350 also requires that the fair value of indefinite-lived purchased intangible assets be estimated and compared to the carrying value. The Company recognizes an impairment loss when the estimated fair value of the indefinite-lived purchased intangible assets is less than the carrying value. As of June 30, 2012, the Company has not acquired any indefinite-lived intangible assets and goodwill.

## **Intangible Assets**

CTS has contracts with various hospitals in the province of Ontario, Canada. These contracts are for specific radiology services to be provided for a length of time. Contracts vary between one and five years. The contracts do not specify any minimum billings for any period of time. These contracts were valued on acquisition using a discounted cash flow model and the fair value as recorded is amortized over the life of the contract using the straight line method.

The Company also attributed value to the non-compete agreement obtained as part of the acquisition agreement with CTS' former director. This agreement has a life of five years and the value attributed to it will be amortized over the same period.

## **Amortization of Intangible Assets**

The accumulated amortization of intangible assets with finite useful lives was \$708,013 and \$650,406 in June 30, 2012 and December 31, 2011, respectively.

For these assets, remaining amortization expense over the next five years is expected to be \$192,022.

<b>Year</b>	<b>USD</b>
2012	\$ 57,607
2013	115,213
2014	19,202
2015	-
2016	-
	<u>\$ 192,022</u>

## **Revenue Recognition**

The Company holds contracts with several hospitals and/or groups of health care facilities to provide Teleradiology services for a specific period of time. The Company bills for services rendered on a monthly basis. For the six months ended June 30, 2012, CTS held eight contracts; three contracts that are renewable on a year-to-year basis, two contracts that are renewable in 2014 and 2015, one contract that is renewable in 2014, and its two largest contracts, which are each renewable in 2013. As described above in accordance with the requirement of Staff Accounting Bulletin (“SAB”) 104, the Company recognizes revenue when: (1) persuasive evidence of an arrangement exists (contracts); (2) delivery has occurred (monthly); (3) the seller's price is fixed or determinable (per the customer's contract, and services performed); and (4) collectability is reasonably assured (based upon our credit policy).

Revenue is accounted for under the guidelines established by SAB 101, *Revenue Recognition in Financial Statements*, and ASC Topic 605-45, *Revenue Recognition – Principal Agent Considerations*. The Company has the following indicators of gross revenue reporting: (1) CTS is the primary obligator in the provision of services to the Hospitals under contract, (2) CTS has latitude in establishing price, and negotiating contracts with each hospital, (3) CTS negotiates and determines the service specification to be provided to each hospital client, (4) CTS has complete discretion in supplier selection, and (5) CTS has the credit risk. Accordingly, the Company records revenue of its subsidiary, CTS, at gross.

### **Cost of Sales**

Cost of sales includes fees paid to radiologists for teleradiology services and system usage costs.

### **Impairment of Long-Lived Assets**

In accordance with ASC Topic 360, *Property, Plant and Equipment*, property, plant, and equipment, and purchased intangibles, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Goodwill and other intangible assets are tested for impairment.

Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

### **Amortization and Depreciation**

Depreciation and amortization are calculated using the straight-line method over the following useful lives:

3 years	Equipment
2 to 5 years	Hospital Contracts
5 years	Non Compete Contract

### **Stock based compensation**

The Company adopted an accounting standard for stock based compensation. The standard requires all share-based payments to employees (which includes non-employee Board of Directors), including employee stock options, warrants and restricted stock, be measured at the fair value of the award and expensed over the requisite service period (generally the vesting period). The fair value of common stock options or warrants granted to employees is estimated at the date of grant using the Black-Scholes option pricing model. The calculation also takes into account the common stock fair market value at the grant date, the exercise price, the expected life of the common stock option or warrant, the dividend yield and the risk-free interest rate.

The Company from time to time may issue stock options, warrants and restricted stock to acquire goods or services from third parties. Restricted stock, options or warrants issued to other than employees or directors are recorded on the basis of their fair value. The options or warrants are valued using the Black-Scholes option pricing model on the basis of the market price of the underlying equity instrument on the “valuation date,” which for options and warrants related to contracts that have substantial disincentives to non-performance, is the date of the contract, and for all other contracts is the vesting date. Expenses related to the options and warrants are recognized on a straight-line basis over the period which services are to be received.

The Company did not recognize stock-based compensation expenses from stock granted to non-employees for the three months ended June 30, 2012.

The Company did not recognize stock-based compensation expenses from stock granted to employees for the three months ended June 30, 2012.

### **Fair Value of Financial Instruments**

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties other than in a forced sale or liquidation.



The carrying amounts of the Company's financial instruments, including cash, accounts receivable, accounts payable and accrued liabilities, and income taxes payable approximate fair value due to their most maturities.

### **Fair Value Measurements**

The hierarchy below lists three levels of fair values based on the extent to which inputs used in measuring fair value is observable in the market. We disclose and categorize each of our fair value measurement items that we recorded at fair value on a recurring basis in one of these three levels based on the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

- Level 1—inputs are based upon unadjusted quoted prices for identical instruments traded in active markets. Our Level 1 non-derivative investments primarily include domestic and international equities, U.S. treasuries and agency securities, and exchange-traded mutual funds. Our Level 1 derivative assets and liabilities include those traded on exchanges.
- Level 2—inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques (e.g. the Black-Scholes model) for which all significant inputs are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Where applicable, these models project future cash flows and discount the future amounts to a present value using market-based observable inputs including interest rate curves, foreign exchange rates, and forward and spot prices for currencies and commodities. Our Level 2 non-derivative investments consist primarily of corporate notes and bonds, mortgage-backed securities, certificates of deposit, certain agency securities, foreign government bonds, and commercial paper. Our Level 2 derivative assets and liabilities primarily include certain over-the-counter options, futures, and swap contracts.
- Level 3—inputs are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques, including option pricing models and discounted cash flow models. Our Level 3 non-derivative assets primarily comprise investments in certain corporate bonds. We value these corporate bonds using internally developed valuation models, inputs to which include interest rate curves, credit spreads, stock prices, and volatilities. Unobservable inputs used in these models are significant to the fair values of the investments. The Company Level 3 derivative assets and liabilities primarily comprise derivatives for foreign equities. In certain cases, market-based observable inputs are not available and the company uses management judgment to develop assumptions to determine fair value for these derivatives.

The company does not have assets and liabilities that are carried at fair value on a recurring basis.

### **Foreign Currency Translation**

The Company's functional currency for its wholly owned subsidiary, CTS, is the Canadian dollar, and these financial statements have been translated into U.S. dollars. The Canadian dollar based accounts of the Company's foreign operations have been translated into United States dollars using the current rate method. Assets and liabilities of those operations are translated into U.S. dollars using exchange rates as of the balance sheet date; income and expenses are translated using the weighted average exchange rates for the reporting period. Translation adjustments are recorded as accumulated other comprehensive income (loss), a separate component of stockholders' deficit.

The Company recognized a foreign currency gain on transactions from operations of \$2,174, and a foreign currency loss of \$963 for the three months ended June 30, 2012 and June 30, 2011, respectively.

The Company recognized a foreign currency translation loss of \$559 and a foreign currency translation gain of \$664 for the three months ended June 30, 2012 and June 30, 2011, respectively.

### **Income Taxes**

The Company accounts for income taxes in accordance with ASC Topic 740, *Income Taxes*. This statement prescribes the use of the asset and liability method whereby deferred tax asset and liability account balances are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

## Net Income / (Loss) Per Share

The Company follows the provisions of ASC Topic 260, *Earnings per Share*. Basic net income / (loss) per share is computed by dividing net loss available to common stockholders by the weighted average number of common shares outstanding during the period. Basic and diluted losses per share are the same as all potentially dilutive securities are anti-dilutive.

Basic earnings per share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects the potential dilution that could occur if stock options and other commitments to issue common stock were exercised or equity awards vest resulting in the issuance of common stock or conversion of notes into shares of the Company's common stock that could increase the number of shares outstanding and lower the earnings per share of the Company's common stock. This calculation is not done for periods in a loss position as this would be antidilutive. As of June 30, 2012, there were no stock options or stock awards that would have been included in the computation of diluted earnings per share that could potentially dilute basic earnings per share in the future.

The information related to basic and diluted earnings per share is as follows:

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>June 30,</u>	<u>June 30,</u>	<u>June 30,</u>	<u>June 30,</u>
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Numerator:				
Continuing operations:				
Net Income/(Loss) from continuing operations	\$ (10,211)	\$ 10,694	\$ (24,035)	\$ (19,170)
Total	\$ (10,211)	\$ 10,694	\$ (24,035)	\$ (19,170)
Net Income/(Loss)	\$ (10,211)	\$ 10,694	\$ (24,035)	\$ (19,170)
Denominator:				
Weighted average number of shares outstanding – basic and diluted	<u>18,106,481</u>	<u>18,056,481</u>	<u>18,106,481</u>	<u>18,056,481</u>
EPS:				
Basic:				
Income/(Loss) from continuing operations	\$ (0.001)	\$ 0.001	\$ (0.001)	\$ (0.001)
Net Income/(loss)	\$ (0.001)	\$ 0.001	\$ (0.001)	\$ (0.001)
Diluted				
Income/(Loss) from continuing operations	\$ (0.001)	\$ 0.001	\$ (0.001)	\$ (0.001)
Net Income/(Loss)	\$ (0.001)	\$ 0.001	\$ (0.001)	\$ (0.001)

## Recent Accounting Updates

Recent accounting updates that the Company has adopted or that will be required to adopt in the future are summarized below.

On January 1, 2011, the Company adopted updates issued by the Financial Accounting Standards Board (FASB) to the authoritative hierarchy of GAAP. These changes establish the FASB Accounting Standards Codification<sup>TM</sup> (ASC) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. Rules and interpretive releases of the Securities and Exchange Commission ("SEC") under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The FASB will no longer issue new standards in the form of Statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts; instead the FASB will issue Accounting Standards Updates. Accounting Standards Updates will not be authoritative in their own right as they will only serve to update the Codification. These changes and the Codification itself do not change GAAP. Other than the manner in which new accounting guidance is referenced, the adoption of these changes had no impact on the Consolidated Financial Statements.

The Company does not expect the adoption of any other recently issued accounting pronouncements to have a significant impact on its results of operations, financial position or cash flow.

## Note 2. Interim Financial Statements

The accompanying interim unaudited condensed financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In our opinion, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six and three month period ended June 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012. For further information, refer to the financial statements and footnotes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

## Note 3. Property and Equipment

Property and equipment are stated at cost. Depreciation is calculated on the accelerated method over the estimated useful life of the assets. At June 30, 2012 and December 31, 2011, the major class of property and equipment were as follows:

	June 30, 2012	December 31, 2011	Estimated useful lives
Computer/Office Equipment	\$ 68,842	\$ 103,136	3 years
Less: Accumulated Depreciation	<u>(68,842)</u>	<u>(101,762)</u>	
Net Book Value	\$ -	\$ 1,374	

As of March 31, 2012 all computer and office equipment were fully depreciated, as such there was no depreciation expense for the three month ended June 30, 2012. For the three months ended June 30, 2011 depreciation expense was \$370.

During the six months ended June 30, 2012 some obsolete equipment for the amount of \$32,834 were written off and the related accumulated depreciation was reversed.

## Note 4. Lease Commitments

CTS has a lease for its off-site servers at a cost of approximately \$2,600 per month. This lease was accounted for as an operating lease and will expire on August 31, 2012. CTS will be purchasing the off – site servers on September 1, 2012.

On December 30, 2009, CTS entered into a new lease commitment for its office space of approximately \$2,450 minimum rental, and approximately \$2,850 in utilities, realty taxes, and operating costs, for a total of approximately \$5,300 per month. The first lease payment was made in April 2010. This lease was accounted for as an operating lease and will expire in March 2013.

Expected remaining lease commitments for the next three years:

<u>Year</u>	<u>Office Space</u>	<u>Servers</u>	<u>Total</u>
2012	\$ 31,800	\$ -	\$ 31,800
2013	15,900	-	15,900
2014	-	-	-
	<u>\$ 47,700</u>	<u>\$ -</u>	<u>\$ 47,700</u>

#### **Note 5. Accounts Payable and Accrued Liabilities**

As of June 30, 2012 and December 31, 2011, the trade payables and accrued liabilities of the Company were \$240,851 and \$230,873, respectively. Of the total amount as of June 30, 2012, approximately \$207,690 is related to CTS ongoing operations. The balance of the accounts is for vendors supplying goods and services used in the normal course of business. Of the total amount as of December 31, 2011, approximately \$167,878 is related to CTS ongoing operations. The balance of the accounts is for vendors supplying goods and services used in the normal course of business.

In March 2012, the Ontario Health Insurance Plan (OHIP), which is administered by the provincial government and responsible for paying for services CTS provides, determined that certain payments made between October 2009 and September 2010 were made in error. The issue revolves around payments made for STAT or Emergency calls that CTS provided and if we qualified for this benefit payment. This finding was a part of a larger study of “C” code payments to all radiologists in Ontario including CTS radiologists. OHIP has since determined that our radiologists did not qualify for this remuneration and as such we are paying back the money. We have recorded expense for the 2011 year of \$28,500. This will be paid out over 9 months starting in March 2012. CTS estimates it may have exposure of up to another \$10,000.

In light of the issue regarding qualifying for this “C” payment, OHIP revised its schedule payment fees list in October 2010 and added in a “E” code fee to cover Teleradiology and additional numeration for STAT calls and ensuring there were no issues going forward. During the six months ended June 30, 2012 \$12,900 was paid out towards the estimated liability.

#### **Note 6. Promissory Notes**

During the year ended December 31, 2011 the Company entered into additional promissory notes agreements with non – related parties for a total amount of \$77,228. The promissory notes are due on December 31, 2012. Interest expense on the promissory notes is accrued at a rate of 10% compounded quarterly. For the year ended December 31, 2011, \$7,742 in accrued interest was recorded on the notes.

During the six months ended June 30, 2012, \$3,690 in accrued interest was recorded on the notes, \$15,000 in additional proceeds was received and \$27,691 was paid toward the balance of the notes.

A summary of the promissory notes is as follows:

Promissory Notes at January 1, 2011	\$ -
Proceeds from Notes Issuances	77,228
Less: Payments in 2011	(380)
Added: Accrued Interest	7,742
	<u>84,590</u>
Promissory notes at December 31, 2011	\$ 84,590
Added: Proceeds through June 30, 2012	15,000
Added: Accrued Interest through June 30, 2012	3,690
Less: Payments through June 30, 2012	(27,691)
	<u>75,589</u>
Promissory notes at June 30, 2012	\$ 75,589

#### **Note 7. Convertible Notes**

The convertible notes sold by DIIC in 2010 total \$419,440. The convertible notes require principal payments of 3% per month on the outstanding principal balance. Interest on the notes accrues at 10% per annum. The notes and interest are convertible into shares of common stock of the Company at \$0.15 per share. In addition, each note holder was given 3.33 shares of Company stock for each \$1 of notes purchased.

In accordance with ASC 470 on issuance of the shares given at 3.33 shares of company stock for each \$1 of notes purchased, the Company recognized an additional paid in Capital and a discount against the notes for a total of \$210,290. An amortization of the discount for the six months ended June 30, 2012 was \$30,623.

For the six months ended June 30, 2012, \$6,665 in accrued interest was recorded on the notes.

For the six months ended June 30, 2012, \$1,140 in foreign currency loss was recorded on the portion of the notes which is carried in Canadian dollar.

The Details of the Notes are as follows:

Issuance Date	December 31, 2011 Balance	Six Months ended June 30, 2012 Accrued Interest	Six Months ended June 30, 2012 Foreign Exchange Gain/(Loss)	Six Months ended June 30, 2012 (Payments)	Six Months Ended June 30, 2012 Amortization Of Debt Discount	June 30, 2012 Balance	Maturity date
March 1, 2010	\$ 11,558	\$ 365	\$ n/a	\$ (4,500)	\$ 971	\$ 8,395	March 31, 2013
April 14, 2010	11,801	403	n/a	(4,500)	1,267	8,970	April 30, 2013
March 4, 2010	11,162	328	(80)	(4,492)	971	8,049	March 31, 2013
March 18, 2010	11,455	365	(80)	(4,492)	1,457	8,865	March 31, 2013
March 22, 2010	11,040	326	(80)	(4,492)	971	7,925	March 31, 2012
March 1, 2010	11,189	328	(118)	(4,492)	971	8,114	March 31, 2013
February 26, 2010	32,282	984	(225)	(15,230)	3,788	22,049	March 31, 2013
April 16, 2010	11,247	372	(79)	(4,492)	1,457	8,663	March 31, 2013
June 1, 2010	19,960	770	(127)	(9,395)	5,449	16,911	June 1, 2013
June 17, 2010	9,839	440	(80)	(4,492)	4,163	10,028	June 1, 2013
August 6, 2010	12,920	514	(80)	(4,492)	2,081	11,102	September 1, 2012
September 23, 2010	20,945	881	(113)	(7,173)	3,330	18,096	October 1, 2012
October 19, 2010	10,895	588	(80)	(4,492)	3,746	10,817	November 1, 2012
Total	\$ 186,293	\$ 6,665	\$ (1,140)	\$ (76,736)	\$ 30,623	\$ 147,984	

Summary of the Notes is as follows:

	June 30, 2012	December 31, 2011
Convertible notes Beginning Balance	\$ 220,245	\$ 349,066
Less: unamortized debt discount	(3,330)	(33,955)
Convertible notes principal, net	216,915	315,111
Less: Payments in Period	(76,736)	(151,801)
Added: Foreign exchange (gain) loss	1,140	(2,016)
Added: Accrued interest	6,665	25,000
Total Convertible notes, net	\$ 147,984	\$ 186,293
Less: Short term portion, net	131,073	166,333
Less: Shareholder short term portion, net	16,911	19,960
Long term portion, net	\$ -	\$ -

Following are maturities of the long –term debt in convertible notes for each of the next 5 years:

	Principal Payments	Interest Payments	Amortization of Discount
2012 - (Before maturity dates)	\$ 60,935	4,146	(3,330)
2012 - (On maturity dates) *	20,607	11,373	
2013	10,818	22,252	
2013 - (On Maturity Dates) *	20,607	19,597	
2014	-		
Total	\$ 112,968	57,368	(3,330)

\* All unpaid principal together with the balance of unpaid and accrued interest that will be due on maturity can be converted into shares by the Holder as set in the conditions of the convertible notes agreement and discussed above.

## Note 8. Related Party Transactions

For the six months ended June 30, 2012, Richard Jagodnik (an officer and shareholder of the Company), had a \$7,062 note payable from DIIC. The note is non-interest bearing and payable on demand.

During the second quarter of 2010, Richard Jagodnik loaned DIIC \$42,944 under the same terms of convertible notes as described in Note 8 above. The note is carried in Canadian dollars and a foreign exchange loss of \$127 was recorded for the six months ended June 30, 2012. For the six months ended June 31, 2012 \$770 in accrued interest was recorded and added to the note. The total value of the note, net of discount as at June 30, 2012, is \$16,911, including accrued interest.

Summary of related party notes is as follows:

	Shareholder Note	Shareholder Convertible Note
Balance at December 31, 2011	7,062	19,960
Added: Accrued Interest	-	770
Added: Foreign Exchange Loss	-	127
Less: Payments	-	(9,395)
Added: Amortization of Debt Discount	-	5,449
Balance at June 30, 2012	7,062	16,911

## Note 9. Major Customers

For the three months ending June 30, 2012 and 2011, revenue was derived primarily from radiology services.

Major customers representing more than 10% of total revenue for the three months ended June 30, 2012 and 2011 are as follow:

Customers	Three Months Ended June 30, 2012		Three Months Ended June 30, 2011	
	Revenue amount	Revenue percentage	Revenue amount	Revenue percentage
Contract A	\$ 270,625	33%	\$ 236,319	25%
Contract B	-	0%	155,961	17%
Contract E	337,089	41%	307,599	33%
Contract F	\$ 137,881	17%	\$ 129,051	14%

Closing balances of accounts receivable for our major customers were as follow:

Customers	Balance at June 30, 2012		Balance at December 31, 2011	
	Accounts Receivable Closing Balance	Accounts Receivable Percentage	Accounts Receivable Closing Balance	Accounts Receivable Percentage
Contract A	\$ 16,918	12%	\$ 19,382	14%
Contract E	54,692	38%	31,603	23%
Contract F	44,772	31%	50,556	37%
Contract G	15,537	11%	21,633	16%
Contract H	\$ 13,423	9%	\$ 12,269	9%

## Note 10. Major Vendors

The company has one major vendor providing its system software and support. Expenses relating to this vendor for the three months ended June 30, 2012 and 2011 were \$14,175 and \$20,600, respectively.

## Note 11. Common Stock Transactions

For the twelve months ended December 31, 2011, 50,000 shares were issued for employee services valued at \$1,000 based upon the closing price of our common stock at the grant date.

No shares were issued for the six months ended June 30, 2012.

**Note 12. Subsequent events**

On September 1, 2012 CTS will be purchasing the off-site servers which it has previously leased for approximately \$2,600 per month. The purchase amount of the off – site servers is \$3,757 and is to be paid by December 31, 2012.

The Company has evaluated all events that occurred after the balance sheet date of June 30, 2012 through August 20, 2012, the date these financial statements were issued.

## **Item 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION**

### Forward Looking Statements

This Form 10-Q quarterly report of Diagnostic Imaging International Corp. (the “Company”) for the six and three months ended June 30, 2012, contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are intended to be covered by the safe harbors created thereby. To the extent that there are statements that are not recitations of historical fact, such statements constitute forward-looking statements that, by definition, involve risks and uncertainties. In any forward-looking statement, where the Company expresses an expectation or belief as to future results or events, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the statement of expectation or belief will be achieved or accomplished.

The following are factors that could cause actual results or events to differ materially from those anticipated, and include, but are not limited to: variations in revenue; possible inability to attract investors for its equity securities or otherwise raise adequate funds from any source should the Company seek to do so; increased governmental regulation; increased competition; unfavorable outcomes to litigation involving the Company or to which the Company may become a party in the future; and a very competitive and rapidly changing operating environment.

Readers are cautioned not to place undue reliance on the forward-looking statements contained herein, which speak only as of the date hereof. The Company believes the information contained in this Form 10-Q to be accurate as of the date hereof. Changes may occur after that date, and the Company will not update that information except as required by law in the normal course of its public disclosure practices.

Additionally, the following discussion regarding the Company’s financial condition and results of operations should be read in conjunction with the financial statements and related notes contained in Item 1 of Part 1 of this Form 10-Q, as well as the financial statements in Item 8 of Part II of the Company’s Form 10-K for the fiscal year ended December 31, 2011.

### **Company History**

Diagnostic Imaging International Corp., (“DIIC”) a Nevada Corporation, was incorporated in 2000. In 2005, the Company developed a business plan for private healthcare opportunities in Canada with the objective of owning and operating private diagnostic imaging clinics. In 2009, the Company purchased Canadian Teleradiology Services, Inc. (“CTS”) a company that provides remote reading of diagnostic imaging scans for rural hospitals and clinics. In early 2010, the Company modified its business plan to grow its CTS subsidiary while commencing the acquisition of existing full service imaging clinics located in the United States and exploring the development of new diagnostic imaging technology.

### **CTS (Business description)**

CTS provides leading edge remote radiology (teleradiology) technology to hospitals and practices, on-call, 24 hours a day, 7 days a week. CTS connects clients with a global teleradiology network, providing access to global partner facilities and American and Canadian board-certified radiologists.

CTS offers interpretations of urgent and elective examinations by board certified consultant radiologists. The Company specializes in MRI, CT, PET, US, NM, MAMMO, X-Ray and BMD modalities. Emergency STAT service is available within one hour, and 24 hours for all other studies. The CTS operation centre coordinates hospitals and radiologists 24 hours a day, 365 days a year.

CTS receives diagnostic imaging scans from hospitals and clinics, and transmits them to approved, certified radiologists, who are typically located in larger urban medical centers. The radiologists read the scans and review the audio information, prepare a medical report, and transmit the reports to the hospitals and clinics. The CTS system of services allows hospitals and clinics access to on-demand radiologists. Joining the CTS team allows the radiologists to make additional income, the flexibility to work from home as opposed to being “locked” in a room in the hospital, and the flexibility to spend time with their families. This service system also helps hospitals and clinics in remote locations, where it is difficult to hire skilled radiologists, and access professional, skilled radiology staff.

CTS has been providing Teleradiology services in North America since 2005.

CTS offers similar services to other public hospitals, and is looking to expand into other provinces and the U.S.



CTS services include:

- Ø Full PACS Networking and Compatibility \*
- Ø Certified Radiologists based in North America and are vetted by the hospital
- Ø 24 Hour Turnaround on Non-emergency Reports
- Ø One Hour Turnaround on Emergency Verbal STAT Reports
- Ø References from Client Public Hospitals and Clinics on request

\*The Picture Archiving and Communications System (PACS) offers Remote Teleradiology Services to PACS-based hospitals and clinics.

Compressed scanned images are transmitted to the CTS Data Centre, including audio dictation, and stored in the PACS system. Orders and reports are generated automatically. The scanned images are read, and reports transcribed and completed. The system has the ability to update reports. Certified Radiologists sign-off on the transcribed final report.

CTS adheres to all standards and Medical Insurance Plans (Ontario and PHIPA (Personal Health Information Protection Act)) guidelines.

### **About Teleradiology**

Teleradiology is the process of assessing radiological patient images, such as x-rays, CTs, and MRIs, from one location to another for the purposes of interpretation and/or consultation. Radiologists are increasingly a scarce resource given that imaging procedures are growing approximately 15% annually against an increase of only 2% in the radiologist population.

Teleradiology improves patient care by allowing radiologists to provide services without actually having to be at the location of the patient. This is important when a sub-specialist, such as a MRI Radiologist, Neuroradiologist, Pediatric Radiologist, or Musculoskeletal Radiologist is required, as these professionals are generally only located in large metropolitan areas.

Teleradiology allows trained specialists to be available 24/7. The Teleradiology Network utilizes secured network technologies such as the wide area network (WAN) or a local area network (LAN). Highly specialized software is used to transmit the images and enable the Radiologist to effectively analyze what can be hundreds of images for a given study. Technologies such as advanced graphics processing, voice recognition, and image compression are often used in Teleradiology. Through Teleradiology, images can be sent to another part of the hospital, or to other locations around the world.

Through Teleradiology, radiologists can provide a Preliminary Read Report for emergency room purposes, or a Final Read Report for the official patient record and for use in billing.

Preliminary Reports include all pertinent findings and a phone call for any critical findings. For some Teleradiology services, the turnaround time is extremely quick with a one hour standard turnaround which is expedited for critical and stroke studies.

Teleradiology Final Reports can be provided for emergent and non-emergent studies. Final reports include all findings and require access to prior studies and all relevant patient information for a complete diagnosis. Phone calls with any critical findings are proven quality services.

In addition, some teleradiologists are fellowship trained radiologists and have a wide variety of sub-specialty expertise, including such difficult-to-find areas as MRI Radiology, Neuroradiology, and Paediatric Neuroradiology.

Teleradiology Preliminary or Final Reports can be provided for all doctors' and hospitals' overflow studies. Teleradiology can be available for intermittent coverage as an extension of practices, which we believe will provide patients with higher quality care.

### **Magnetic Resonance Imaging (MRI)**

MRI is an investigative procedure to detect structural or anatomical problems inside the body without the need for exploratory surgery or more complex invasive tests. MRI scanning is a painless way to "see" through bones.

MRI can be used to detect problems in almost any area - head, brain, eyes, ears, neck, chest, abdomen, pelvis, spine and limbs. It is particularly useful for detecting nerve root compression (pinched, trapped nerves) in the spine by a slipped disc, and is also commonly used to assess major joints (knees and ankles - torn ligaments, meniscus injuries).

MRI has found wide applications in many branches of medicine. Neurology, cardiology, orthopedics, urology and general surgery all use MRI for making and confirming diagnosis.

MRI can also be used in angiography studies without the need for contrast. MRI scans produce detailed pictures of soft body tissue and organs without using ionizing radiation, making early detection of cancers, neurological, and musculoskeletal diseases possible.

### **Computerized Axial Tomography (CAT) Technology**

Patients find CAT scan technology less claustrophobic than an MRI scan, as the tunnel on a CAT machine is much shorter than the tunnel on an MRI scanner.

Computed Tomography scans are a three dimensional "window" into the body through which doctors can see brain, spine, joint and internal organs.

A CAT scan consists of a highly sensitive X-ray beam that is focused on a special plane of the body. As this beam passes through the body, it is picked up by a detector, which feeds the information it receives into a computer. The computer analyzes the information on the basis of tissue density.

### **Computed Tomography (CT)**

Computed Tomography (CT) is a method employing tomography created by computer processing. Digital geometry processing is used to generate a three-dimensional image of the inside of an object from a large series of two-dimensional x-ray images taken around a single axis of rotation.

### **Positron Emission Tomography (PET)**

Positron Emission Tomography (PET) is a technique which produces a three-dimensional image or map of functional processes in the body. The system detects pairs of gamma rays emitted indirectly by a positron-emitting (tracer), which is introduced into the body on a biologically active molecule. Images of tracer concentration in 3-dimensional space within the body are then reconstructed by computer analysis. In modern scanners, this reconstruction is often accomplished with the aid of a CT X-ray scan performed on the patient during the same session, in the same machine.

### **Canadian Government Regulation**

Our CTS subsidiary is subject to extensive regulation by the Canadian federal government, as well as the governments of the provinces and territories in which we conduct our business. A diagnostic imaging clinic or hospital must be licensed by the Ministry of Health and sanctioned by the College of Physicians and Surgeons in the province in which it is located.

In addition to extensive existing Canadian government healthcare regulation, there could be at the federal and provincial levels reforms affecting the payment for and availability of diagnostic healthcare services. Limitations on reimbursement amounts and other cost containment pressures could result in a decrease in the revenue we expect to receive for each scan we perform. It is not clear at this time what proposals, if any, will be adopted or, if adopted, what affect these proposals would have on our business.

As our CTS subsidiary operates solely in Canada, we do not expect the recent U.S. healthcare reform legislation to have a material effect on our business or results of operations.

### **Competition**

We compete with numerous public and private diagnostic imaging clinics. We also compete for the hiring of qualified medical experts and MRI technicians to perform and evaluate the diagnostic imaging scans. Most of our current competitors have, and our future competitors are expected to have, greater resources than us. Therefore, our ability to compete largely depends on our financial resources and capacity.

## **Customers**

Between direct hospital contracts and satellite hospitals that feed into the main hospital, we have a client roster of more than 20 hospitals that rely on CTS. The loss of any of these clients would have a negative impact on the Company.

## **Employees**

DIIC currently has two full time employees and one part time employee who are the Chief Executive Officer, the Controller, and the Chief Financial Officer, respectively. In addition, the Company employs many contractors who are radiologists, accountants, business development consultants, clerical staff and IT professionals. As we expand our CTS subsidiary, we expect to hire additional employees.

## **Operations**

### *CTS*

In the first and second quarter of 2012, the Company focused on external marketing for CTS in order to gain new clients.

### *Diagnostic Imaging Clinics*

In the first and second quarter of 2012 the Company continued to explore opportunities for acquiring an MR clinic.

### *Overall Operating Results:*

For the six months ended June 30, 2012, revenues from radiology services were \$1,642,654 compared to \$1,871,258 for the six months ended June 30, 2011, a decrease of 12% or \$228,604. This decrease in revenues was due to one of the Company's client hospitals ending service with CTS, citing a desire by the current team to bring the workload back into the hospital and a change in the workflow within the hospital. The client hospital has communicated that this change was not a reflection on CTS service. In addition, the Ontario Health Insurance Plan (OHIP), which is administered by the provincial government and responsible for paying for services CTS provides has reduced most radiology fees by approximately 5% which contributed to the decrease in sales. OHIP has also announced plans to reduce fees by a further 6% over the next 3 years. The move by the Ontario government was unilateral and the radiology association may choose to challenge the cut backs.

For the six months ended June 30, 2012 cost of sales incurred were \$1,344,031 compared to \$1,546,169 for the six months ended June 30, 2011, a decrease of 13% or \$114,703. As a result of the decrease in revenues, we incurred less cost of sales. As a percentage of revenues, our costs of sales slightly decreased from 83% to 82% due to reduction in service fees to our main system service provider.

Operating expenses for the six months ended June 30, 2012 and June 30, 2011, totalled \$259,222 and \$261,996, respectively.

During the six months ended June 30, 2012, we incurred \$58,995 in amortization and depreciation expenses, \$46,705 in legal and professional fees, \$26,017 in general and administrative costs, \$4,782 in management fees, \$1,672 in advertising and promotion, \$57,120 for labor, and \$57,977 for rent and insurance.

During the six months ended June 30, 2011, we incurred \$58,342 in amortization and depreciation expenses, \$57,120 in legal and professional fees, \$19,754 in general and administrative costs, \$4,790 in management fees, \$1,010 in advertising and promotion, \$58,979 for labor, and \$59,075 for rent and insurance.

For the three months ended June 30, 2012, revenues from radiology services were \$832,016 compared to \$968,307 for the three months ended June 30, 2011, a decrease of 14% or \$136,291.

For the three months ended June 30, 2012 cost of sales incurred were \$678,594 compared to \$793,297 for the three months ended June 30, 2011, a decrease of 14% or \$114,703. As a result of the decrease in revenues, we incurred less cost of sales. As a percentage of revenues, our costs of sales remained constant at 82%.

Operating expenses for the three months ended June 30, 2012 and June 30, 2011, totalled \$132,359 and \$127,780, respectively.

During the three months ended June 30, 2012, we incurred \$28,804 in amortization expenses, \$32,820 in legal and professional fees, \$10,351 in general and administrative costs, \$2,390 in management fees, \$379 in advertising and promotion, \$28,311 for labor, and \$28,927 for rent and insurance.

During the three months ended June 30, 2011, we incurred \$29,174 in amortization and depreciation expenses, \$26,922 in legal and professional fees, \$8,147 in general and administrative costs, \$2,383 in management fees, \$170 in advertising and promotion, \$31,120 for labor, and \$29,837 for rent and insurance.

The Company generated positive cash flow in order to service its obligations but will require substantial investment in the near term in order to expand as we implement our business plan.

#### *Liquidity and Capital Resources:*

Prior to 2012, the Company funded its operations and working capital through the sale of common stock.

During the past two years, the Company sold an aggregate of 450,000 shares of common stock in several private offerings to accredited investors, in which it raised an aggregate of \$36,000.

The Company's operations have produced \$832,016 of revenues for the three months ended June 30, 2012, which have been used to fund its operating expenses, and to reduce its liabilities. The Company expects that current operations will be able to cover its expenses on an ongoing basis through 2012 and beyond. The Company will need to raise additional capital to expand its business, implement additional aspects of its business plan, and to retire the remaining balance in convertible notes; however, there can be no assurance that the Company will be able to raise the funds necessary to do so.

Since inception, our current Chief Financial Officer (and former Chairman and Chief Executive Officer) has loaned the Company a total of \$112,381 to fund our operations. The note is non-interest bearing and payable upon demand. For the three months ended June 30, 2012, the balance outstanding on this note was \$7,062.

During the second quarter of 2010, Richard Jagodnik loaned DIIC \$42,944 under the same terms of convertible notes as described in Note 8 above. The note is carried in Canadian dollars and a foreign exchange loss of \$127 was recorded for the six months ended June 30, 2012. For the six months ended June 31, 2012 \$770 in accrued interest was recorded and added to the note. The total value of the note, net of discount as at June 30, 2012, is \$16,911, including accrued interest.

In 2010 the Company closed a financing of \$419,440 in loans from private investors. The notes are due on various dates in 2012 and 2013 and require principal payments of 3% per month on the outstanding principal balance. Interest on the notes accrues at 10% per annum. The notes and interest are convertible into shares of common stock of the Company at \$0.15 per share. In addition, each note holder was given 3.33 shares of Company stock for each \$1 of notes purchased. A detailed schedule of the Notes is presented in Note 7 to the consolidated financial statements.

As of June 30, 2012 the Company has promissory notes to non – related parties for a total amount of \$75,589. The promissory notes are due on December 31, 2012. Interest expense on the promissory notes is accrued at a rate of 10% compounded quarterly.

As of June 30, 2012, our assets totalled \$395,279, which consisted of cash balances, accounts receivable, deposits, intangible assets and computer and office equipment. As of June 30, 2012, our total liabilities consisted of accounts payable and accrued liabilities of \$240,851, related party notes payable of \$16,911 (net of discount), Promissory notes of \$75,589, and non-related party convertible notes of \$131,073 (net of discount). As of June 30, 2012, we had an accumulated deficit of \$1,696,017 and a working capital deficit of \$274,274.

We will need significant funds to consummate the acquisition of any additional diagnostic imaging clinics in the future. We anticipate that any funds raised will be raised through the sale of our securities in public or private placement transactions, and/or the issuance of convertible debentures and/or loans. We have no commitments at this time and we cannot give any assurances that we will be successful in raising adequate funds in order to fully implement our business plan. If we are not able to secure adequate financing or it is offered on unacceptable terms, then our business plan and strategy may have to be modified or curtailed or certain aspects terminated.

## **Off Balance Sheet Arrangements**

The Company's off-balance sheet arrangements relate to operating lease and are detailed in Note 4 to the consolidated financial statements in this 10-Q.

## **New Accounting Pronouncements**

Diagnostic Imaging does not expect the adoption of recently issued accounting pronouncements to have a significant impact on Diagnostic Imaging's results of operations, financial position, or cash flow.

## **Item 3 – Quantitative and Qualitative Analysis of Market Risks**

There are no material changes in the market risks faced by us from those reported in our Annual Report on Form 10-K/A for the year ended December 31, 2011.

## **Item 4T. – Controls and Procedures**

(a) **Evaluation of Disclosure Controls and Procedures.** We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) that are designed to ensure that information required to be disclosed in our periodic reports filed 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, and that such information is accumulated and communicated to our management and our board of directors, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired objectives, and management necessarily is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

We carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2012. This evaluation was carried out under the supervision and with the participation of our management, including our chief executive officer (who is also our principal financial and accounting officer). Based upon the evaluation, our chief executive officer concluded that our disclosure controls and procedures were not effective at the date of management's evaluation through the date of this report.

(b) **Changes in Internal Controls.** There was no change in the Company's internal controls over financial reporting during our most recently completed fiscal quarter that has materially affected, or is reasonably likely to affect the Company's internal control over financial reporting.

Our determination of non-effectiveness is based upon the number and magnitude of adjustments proposed by our independent auditor during their review of our quarterly results.

1. As of June 30, 2012, we did not maintain effective controls over the control environment. Specifically, the Board of Directors does not currently have any independent members and no director qualifies as an audit committee financial expert as defined in Item 207(d)(5)(ii) of Regulation S-B. Since these entity level programs have a pervasive effect across the organization, management has determined that these circumstances constitute a material weakness.

2. As of June 30, 2012, we did not maintain effective controls over financial statement disclosure. Specifically, controls were not designed and in place to ensure that all disclosures required were originally addressed in our financial statements. Accordingly, management has determined that this control deficiency constitutes a material weakness.

Management is evaluating our control environment and plans to make improvements to the quality of our controls. When changes are made to our control structure it will be disclosed in future filings.

## **PART II**

### **ITEM 1. Legal Proceedings**

None

**ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

During the quarter ended June 30, 2012 the Company did not issue shares of common stock.

**ITEM 3. Defaults Upon Senior Securities**

None

**ITEM 4. Mine Safety Disclosures**

None

**ITEM 5. Other Information**

None

**ITEM 6. Exhibits**

(a) Exhibits.

<b>Exhibit No.</b>	<b>Description</b>
31.1	Certification of Chief Executive Officer, pursuant to Rule 13a-14(a) of the Exchange Act, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002. (1)
31.2	Certification of Chief Financial Officer, pursuant to Rule 13a-14(a) of the Exchange Act, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002. (1)
32.1	Certification of Chief Executive Officer and Chief Financial Officer, pursuant to 18 United States Code Section 1350, as enacted by Section 906 of the Sarbanes-Oxley Act of 2002. (1)

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(1) Filed herewith

## SIGNATURES

In accordance with Section 13 or 15(d) 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 INTERNATIONAL CORP.**

By: /s/ Mitchell Geisler  
Mitchell Geisler  
Chief Executive Officer

Date: August 20, 2012

Pursuant to the requirements with the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Capacities</u>	<u>Date</u>
<u>/s/ Mitchell Geisler</u> Mitchell Geisler	Chief Executive Officer (Principal Executive Officer) and Director	August 20, 2012
<u>/s/ Richard Jagodnik</u> Richard Jagodnik	Chief Financial Officer (Principal Financial and Accounting Officer) and Director	August 20, 2012