FORM 10-Q
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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

For the quarterly period ended DECEMBER 31, 2019

Commission file number 0-10248

FONAR CORPORATION
(Exact name of registrant as specified in its charter)

DELAWARE	11-2464137
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
110 Marcus Drive Melville, New York	11747
Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (631) 694-2929

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock	FONR	NASDAQ

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for shorter period that the registrant was required to submit such files
YES _X_ NO ___

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definition of accelerated filer, large accelerated filer, smaller reporting company and emerging growth company in Rule 12b-2 of the Exchange Act. (Check one):Large accelerated filer___ Accelerated filer _X_ Non-accelerated filer___Smaller reporting company _X_ Emerging growth company ___

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the close of the latest practicable date.

Class	Outstanding at February 6, 2020
Common Stock, par value $.0001	6,447,463
Class B Common Stock, par value $.0001	146
Class C Common Stock, par value $.0001	382,513
Class A Preferred Stock, par value $.0001	313,438

FONAR CORPORATION AND SUBSIDIARIES

INDEX

FONAR CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Amounts and shares in thousands, except per share amounts)
(UNAUDITED)

ASSETS

	December 31, 2019	June 30, 2019 *
Current Assets:		
Cash and cash equivalents	$ 15,393	$ 13,882
Short term investments	15,294	15,095
Accounts receivable – net	4,128	3,737
Accounts receivable - related party	60	—
Medical receivable – net	16,151	15,729
Management and other fees receivable – net	27,282	25,709
Management and other fees receivable – related medical practices – net	7,013	6,501
Inventories	1,751	1,798
Costs and estimated earnings in excess of billings on uncompleted contracts	153	525
Income tax receivable	600	600
Prepaid expenses and other current assets	2,176	1,513
Total Current Assets	90,001	85,089
Accounts receivable	2,321	—
Income taxes receivable	600	600
Deferred income tax asset	19,122	20,937
Property and equipment – net	20,121	16,986
Right-of-use asset – net	29,994	—
Goodwill	3,985	3,985
Other intangible assets – net	4,336	4,756
Other assets	1,197	1,207
Total Assets	$ 171,677	$ 133,560

*Condensed from audited financial statements.

See accompanying notes to condensed consolidated financial statements.

FONAR CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Amounts and shares in thousands, except per share amounts)
(UNAUDITED)

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31, 2019	June 30, 2019 *
Current Liabilities:		
Current portion of long-term debt and capital leases	$ 34	$ 41
Accounts payable	1,285	1,861
Other current liabilities	5,519	7,577
Unearned revenue on service contracts	4,005	3,812
Unearned revenue on service contracts – related party	55	—
Lease liability - current portion	3,185	—
Customer deposits	827	799
Billings in excess of costs and estimated earnings on uncompleted contracts	12	—
Total Current Liabilities	14,922	14,090
Long-Term Liabilities:		
Unearned revenue on service contracts	2,241	—
Deferred income tax liability	243	243
Due to related medical practices	93	93
Long-term debt and capital leases, less current portion	256	273
Lease liability - net of current portion	28,682	—
Other liabilities	157	749
Total Long-Term Liabilities	31,672	1,358
Total Liabilities	46,594	15,448

*Condensed from audited financial statements.

See accompanying notes to condensed consolidated financial statements.

FONAR CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Amounts and shares in thousands, except per share amounts)
(UNAUDITED)

LIABILITIES AND STOCKHOLDERS' EQUITY (Continued)

STOCKHOLDERS' EQUITY:	December 31, 2019	June 30, 2019 *
Class A non-voting preferred stock $.0001 par value; 453 shares authorized at December 31, 2019 and June 30, 2019, 313 issued and outstanding at December 31, 2019 and June 30, 2019	$ —	$ —
Preferred stock $.001 par value; 567 shares authorized at December 31, 2019 and June 30, 2019, issued and outstanding – none	—	—
Common Stock $.0001 par value; 8,500 shares authorized at December 31, 2019 and June 30, 2019, 6,459 and 6,369 issued at December 31, 2019 and June 30, 2019, 6,447 and 6,357 outstanding at December 31, 2019 and June 30, 2019	1	1
Class B Common Stock (10 votes per share) $.0001 par value; 227 shares authorized at December 31, 2019 and June 30, 2019; .146 issued and outstanding at December 31, 2019 and June 30, 2019	—	—
Class C Common Stock (25 votes per share) $.0001 par value; 567 shares authorized at December 31, 2019 and June 30, 2019, 383 issued and outstanding at December 31, 2019 and June 30, 2019	—	—
Paid-in capital in excess of par value	183,076	181,086
Accumulated deficit	(58,053)	(64,456)
Treasury stock, at cost - 12 shares of common stock at December 31, 2019 and June 30, 2019	(675)	(675)
Total Fonar Corporation's Stockholders' Equity	124,349	115,956
Noncontrolling interests	734	2,156
Total Stockholders' Equity	125,083	118,112
Total Liabilities and Stockholders' Equity	$ 171,677	$ 133,560

*Condensed from audited financial statements.
See accompanying notes to condensed consolidated financial statements.

FONAR CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Amounts and shares in thousands, except per share amounts)
(UNAUDITED)

	FOR THE THREE MONTHS ENDED DECEMBER 31,	
REVENUES	2019	2018
Patient fee revenue – net of contractual allowances and discounts	$ 5,996	$ 5,921
Product sales – net	3	395
Service and repair fees – net	2,038	2,021
Service and repair fees - related parties – net	28	28
Management and other fees – net	10,996	10,573
Management and other fees - related medical practices – net	2,390	2,287
Total Revenues – Net	21,451	21,225
COSTS AND EXPENSES		
Costs related to patient fee revenue	2,958	2,702
Costs related to product sales	120	317
Costs related to service and repair fees	772	746
Costs related to service and repair fees - related parties	10	11
Costs related to management and other fees	6,203	5,904
Costs related to management and other fees – related medical practices	1,621	1,405
Research and development	583	550
Selling, general and administrative	4,163	3,610
Total Costs and Expenses	16,430	15,245
Income From Operations	5,021	5,980
Interest Expense	(19)	(25)
Investment Income	139	122
Income Before Provision for Income Taxes and Noncontrolling Interests	5,141	6,077
Provision for Income Taxes	(932)	(1,213)
Net Income	4,209	4,864
Net Income - Noncontrolling Interests	(1,105)	(1,312)
Net Income - Controlling Interests	$ 3,104	$ 3,552
Net Income Available to Common Stockholders	$ 2,914	$ 3,332
Net Income Available to Class A Non-Voting Preferred Stockholders	$ 142	$ 164
Net Income Available to Class C Common Stockholders	$ 48	$ 56
Basic Net Income Per Common Share Available to Common Stockholders	$ 0.45	$ 0.52
Diluted Net Income Per Common Share Available to Common Stockholders	$ 0.44	$ 0.51
Basic and Diluted Income Per Share – Class C Common	$ 0.13	$ 0.15
Weighted Average Basic Shares Outstanding – Common Stockholders	6,447	6,357
Weighted Average Diluted Shares Outstanding - Common Stockholders	6,575	6,485
Weighted Average Basic Shares Outstanding – Class C Common	383	383
Weighted Average Diluted Shares Outstanding – Class C Common	383	383

See accompanying notes to condensed consolidated financial statements.

FONAR CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Amounts and shares in thousands, except per share amounts)
(UNAUDITED)

	FOR THE SIX MONTHS ENDED DECEMBER 31,	
REVENUES	2019	2018
Patient fee revenue – net of contractual allowances and discounts	$ 12,041	$ 11,446
Product sales – net	195	445
Service and repair fees – net	4,102	4,152
Service and repair fees - related parties – net	55	55
Management and other fees – net	22,024	21,257
Management and other fees - related medical practices – net	4,780	4,575
Total Revenues – Net	43,197	41,930
COSTS AND EXPENSES		
Costs related to patient fee revenue	5,820	5,276
Costs related to product sales	450	322
Costs related to service and repair fees	1,522	1,491
Costs related to service and repair fees - related parties	20	20
Costs related to management and other fees	12,208	11,660
Costs related to management and other fees – related medical practices	3,157	2,787
Research and development	1,055	987
Selling, general and administrative	8,458	7,869
Total Costs and Expenses	32,690	30,412
Income From Operations	10,507	11,518
Interest Expense	(40)	(50)
Investment Income	287	230
Income Before Provision for Income Taxes and Noncontrolling Interests	10,754	11,698
Provision for Income Taxes	(2,039)	(2,341)
Net Income	8,715	9,357
Net Income - Noncontrolling Interests	(2,313)	(2,486)
Net Income - Controlling Interests	$ 6,402	$ 6,871
Net Income Available to Common Stockholders	$ 6,010	$ 6,444
Net Income Available to Class A Non-Voting Preferred Stockholders	$ 292	$ 318
Net Income Available to Class C Common Stockholders	$ 100	$ 109
Basic Net Income Per Common Share Available to Common Stockholders	$ 0.93	$ 1.01
Diluted Net Income Per Common Share Available to Common Stockholders	$ 0.92	$ 0.99
Basic and Diluted Income Per Share – Class C Common	$ 0.26	$ 0.28
Weighted Average Basic Shares Outstanding – Common Stockholders	6,440	6,351
Weighted Average Diluted Shares Outstanding - Common Stockholders	6,568	6,479
Weighted Average Basic Shares Outstanding – Class C Common	383	383
Weighted Average Diluted Shares Outstanding – Class C Common	383	383

See accompanying notes to condensed consolidated financial statements.

FONAR CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Amounts and shares in thousands, except per share amounts)
(UNAUDITED)

For the Three Months Ending December 31, 2019

	Common Stock	Paid in capital in excess of par value	Accumulated Deficit	Notes receivable from employee stockholders	Treasury Stock	Non Controlling Interests	Total
Balance - September 30, 2019	$ 1	$183,076	$ (61,157)	—	$ (675)	$ 1,609	$ 122,854
Net income	—	—	3,104	—	—	—	3,104
Distributions - Non controlling	—	—	—	—	—	(1,980)	(1,980)
Income - Non controlling interests	—	—	—	—	—	1,105	1,105
Balance - December 31, 2019	$ 1	$183,076	$ (58,053)	—	$ (675)	$ 734	$125,083

For the Three Months Ending December 31, 2018

	Common Stock	Paid in capital in excess of par value	Accumulated Deficit	Notes receivable from employee stockholders	Treasury Stock	Non Controlling Interests	Total
Balance - September 30, 2018	$ 1	$181,086	$ (76,454)	$ (9)	$ (675)	$ 2,993	$106,942
Net income	—	—	3,552	—	—	—	3,552
Distributions - Non controlling	—	—	—	—	—	(1,950)	(1,950)
Income - Non controlling interests	—	—	—	—	—	1,312	1,312
Balance - December 31, 2018	$ 1	$181,086	$ (72,902)	$ (9)	$ (675)	$ 2,355	$ 109,856

FONAR CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Amounts and shares in thousands, except per share amounts)
(UNAUDITED)

For the Six Months Ending December 31, 2019

	Common Stock	Paid in capital in excess of par value	Accumulated Deficit	Notes receivable from employee stockholders	Treasury Stock	Non Controlling Interests	Total
Balance - June 30, 2019	$ 1	$181,086	$ (64,455)	—	(675)	$ 2,156	$ 118,113
Issuance of Common Stock	—	1,990	—	—	—	—	1,990
Net income	—	—	6,402	—	—	—	6,402
Distributions - Non controlling	—	—	—	—	—	(3,735)	(3,735)
Income - Non controlling interests	—	—	—	—	—	2,313	2,313
Balance - December 31, 2019	$ 1	$183,076	$ (58,053)	—	(675)	$ 734	$125,083

For the Six Months Ending December 31, 2018

	Common Stock	Paid in capital in excess of par value	Accumulated Deficit	Notes receivable from employee stockholders	Treasury Stock	Non Controlling Interests	Total
Balance - June 30, 2018	$ 1	$ 179,131	$ (79,773)	$ (9)	$ (675)	$ 3,559	$ 102,234
Issuance of Common Stock	—	1,955	—	—	—	—	1,955
Net income	—	—	6,871	—	—	—	6,871
Distributions - Non controlling	—	—	—	—	—	(3,690)	(3,690)
Income - Non controlling interests	—	—	—	—	—	2,486	2,486
Balance - December 31, 2018	$ 1	$181,086	$ (72,902)	$ (9)	$ (675)	$ 2,355	$109,856

FONAR CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts and shares in thousands, except per share amounts)
(UNAUDITED)

	FOR THE SIX MONTHS ENDED DECEMBER 31, 2019	2018
Cash Flows from Operating Activities:		
Net income	$ 8,715	$ 9,357
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,003	1,874
Amortization on right-of-use assets	1,656	—
Provision for bad debts	(978)	(593)
Deferred income tax – net	1,816	2,341
Stock issued for costs and expenses	1,990	1,955
(Increase) decrease in operating assets, net:		
Accounts, medical and management fee receivable(s)	(4,300)	(2,309)
Notes receivable	11	(13)
Costs and estimated earnings in excess of billings on uncompleted contracts	372	—
Inventories	47	(225)
Prepaid expenses and other current assets	330	304
Other assets	(45)	2
Increase (decrease) in operating liabilities, net:		
Accounts payable	(576)	(6)
Other current liabilities	430	(3,003)
Operating lease liabilities	(1,447)	—
Customer deposits	28	71
Billings in excess of costs and estimated earnings on uncompleted contracts	12	—
Other liabilities	123	21
Due to related medical practices	—	(135)
Net cash provided by operating activities	10,187	9,641
Cash Flows from Investing Activities:		
Purchases of property and equipment	(4,656)	(2,238)
Short term investment	(199)	—
Cost of patents	(62)	(45)
Net cash used in investing activities	(4,917)	(2,283)
Cash Flows from Financing Activities:		
Repayment of borrowings and capital lease obligations	(24)	(15)
Distributions to noncontrolling interests	(3,735)	(3,690)
Net cash used in financing activities	(3,759)	(3,705)
Net Increase in Cash and Cash Equivalents	1,511	3,653
Cash and Cash Equivalents - Beginning of Period	13,882	19,634
Cash and Cash Equivalents - End of Period	$ 15,393	$ 23,287

See accompanying notes to condensed consolidated financial statements.

NOTE 1 – DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Description of Business

Effective July 1, 2015, the Company restructured the corporate organization of the management of diagnostic imaging centers segment of our business. The reorganization was structured to more completely integrate the operations of Health Management Corporation of America and HDM. Imperial contributed all of its assets (which were utilized in the business of Health Management Corporation of America) to HDM and received a 24.2% interest in HDM. Health Management Corporation of America retained a direct ownership interest of 45.8% in HDM, and the original investors in HDM retained a 30.0% ownership interest in the newly expanded HDM. The entire management of diagnostic imaging centers business segment is now being conducted by HDM, operating under the name “Health Management Company of America”.

Basis of Presentation

The accompanying unaudited condensed consolidated 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 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months and six months ended December 31, 2019, are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2020. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K filed on December 31, 2019 for the fiscal year ended June 30, 2019.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The unaudited condensed consolidated financial statements include the accounts of FONAR Corporation, its majority and wholly-owned subsidiaries and partnerships (collectively the “Company”). All significant intercompany accounts and transactions have been eliminated in consolidation.

Revenues

On July 1, 2018, the Company adopted the new revenue recognition accounting standard issued by the Financial Accounting Standards Board (“FASB”) and codified in the ASC as topic 606 (“ASC 606”). The revenue recognition standard in ASC 606 outlines a single comprehensive model for recognizing revenue as performance obligations, defined in a contract with a customer as goods or services transferred to the customer in exchange for consideration, are satisfied. The standard also requires expanded disclosures regarding the Company’s revenue recognition policies and significant judgments employed in the determination of revenue.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenues (Continued)

Our revenues generally relate to net patient fees received from various payers and patients themselves under contracts in which our performance obligations are to provide diagnostic services to the patients. Revenues are recorded during the period our obligations to provide diagnostic services are satisfied. Our performance obligations for diagnostic services are generally satisfied over a period of less than one day. The contractual relationships with patients, in most cases, also involve a third-party payer (Medicare, Medicaid, managed care health plans and commercial insurance companies, including plans offered through the health insurance exchanges) and the transaction prices for the services provided are dependent upon the terms provided by (Medicare and Medicaid) or negotiated with (managed care health plans and commercial insurance companies) the third-party payers. The payment arrangements with third-party payers for the services we provide to the related patients typically specify payments at amounts less than our standard charges and generally provide for payments based upon predetermined rates per diagnostic services or discounted fee-for-service rates. Management continually reviews the contractual estimation process to consider and incorporate updates to laws and regulations and the frequent changes in managed care contractual terms resulting from contract renegotiations and renewals.

Earnings Per Share

Basic earnings per share (“EPS”) is computed based upon the weighted average number of shares of common stock and stock equivalents outstanding, net of common stock. In accordance with ASC topic 260-10, “Participating Securities and the Two-Class method”, the Company used the Two-Class method for calculating basic income per share and applied the if converted method in calculating diluted income per share for the three and six months ended December 31, 2019 and 2018.

Diluted EPS reflects the potential dilution from the exercise or conversion of all dilutive securities into common stock based on the average market price of common shares outstanding during the period. For the three and six months ended December 31, 2019 and 2018, diluted EPS for common shareholders includes 128 shares upon conversion of Class C Common.

FONAR CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 and 2018
(Amounts and shares in thousands, except per share amounts)
(UNAUDITED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Earnings Per Share (Continued)

	Three months ended December 31, 2019			Three months ended December 31, 2018		
	Total	Common Stock	Class C Common Stock	Total	Common Stock	Class C Common Stock
Basic						
Numerator:						
Net income available to common stockholders	$ 3,104	$ 2,914	$ 48	$ 3,552	$ 3,332	$ 56
Denominator:						
Weighted average shares outstanding	6,447	6,447	383	6,357	6,357	383
Basic income per common share	$ 0.48	$ 0.45	$ 0.13	$ 0.56	$ 0.52	$ 0.15
Diluted						
Denominator:						
Weighted average shares outstanding		6,447	383		6,357	383
Convertible Class C Stock		128	—		128	—
Total Denominator for diluted earnings per share		6,575	383		6,485	383
Diluted income per common share		$ 0.44	$ 0.13		$ 0.51	$ 0.15

	Six months ended December 31, 2019			Six months ended December 31, 2018		
	Total	Common Stock	Class C Common Stock	Total	Common Stock	Class C Common Stock
Basic						
Numerator:						
Net income available to common stockholders	$ 6,402	$ 6,010	$ 100	$ 6,871	$ 6,444	$ 109
Denominator:						
Weighted average shares outstanding	6,440	6,440	383	6,351	6,351	383
Basic income per common share	$ 0.99	$ 0.93	$ 0.26	$ 1.08	$ 1.01	$ 0.28
Diluted						
Denominator:						
Weighted average shares outstanding		6,440	383		6,351	383
Convertible Class C Stock		128	—		128	—
Total Denominator for diluted earnings per share		6,568	383		6,479	383
Diluted income per common share		$ 0.92	$ 0.26		$ 0.99	$ 0.28

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements

In December 2019, the FASB issued ASU No. 2019-12, Income Taxes (Topic 740) : Simplifying the Accounting for Income Taxes, which is intended to simplify various aspects related to accounting for income taxes. ASU 2019-12 removes certain exceptions to the general principles in Topic 740 and also clarifies and amends existing guidance to improve consistent application. ASU 2019-12 is effective for the Company beginning July 1, 2021. The Company is currently evaluating the impact of the adoption of ASU 2019-12 on its condensed consolidated financial statements.

In January 2017, the FASB issued Accounting Standards Update ("ASU") 2017-04, Intangibles – Goodwill and Other (Topic 350). The amendments in this update simplify the test for goodwill impairment by eliminating Step 2 from the impairment test, which required the entity to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities following the procedure that would be required in determining fair value of assets acquired and liabilities assumed in a business combination. The amendments in this update are effective for public companies for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. We are evaluating the impact of adopting this guidance on our condensed consolidated condensed financial statements.

During February 2016, FAS issued ASU 2016-02, Leases (Topic 842). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based upon the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Lease with a term of 12 months or less will be accounted for similar to existing guidance for operating leases. The new guidance will be effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period and is applied retrospectively. The Company adopted this guidance on July 1, 2019, as required, electing to apply retrospectively at the period of adoption with practical expedients. The adoption of this guidance had a material impact on the Company's balance sheet by virtue of including the present value of its future operating lease payments as a liability of $33.3 million and related right-to-use lease assets as of July 1, 2019.

(Amounts and shares in thousands, except per share amounts)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements (Continued)

The Company accounts for its various operating leases in accordance with Accounting Standards Codification (‘ASC’) 842 – Lease, as updated by ASU 2016-02. At the inception of a lease, the Company recognizes right-of-use lease assets and related lease liabilities measured at present value of future lease payments on its balance sheet. Lease expense is recognized on a straight-line basis over the term of the lease. The Company reviewed its contracts with vendors and customers, determining that its right-to-use lease assets consisted of only office space operating leases. In determining the right-to-use lease assets and liabilities, the Company did recognize lease extension options which the Company feels would be reasonably exercised. Also included in other current assets is a $950 receivable from a landlord for tenant improvements. A reconciliation of operating lease payments undiscounted cash flows to lease liabilities recognized as of December 31, 2019 is as follows:

	Operating Lease Payments
2020 (Six Months)	2,412
2021	4,782
2022	4,463
2023	4,415
2024	4,120
Thereafter	21,545
Present Value discount (5.5% weighted average)	(9,870)
Total lease liability	31,867

FASB, the Emerging Issues Task Force and the SEC have issued certain other accounting standards, updates, and regulations as of December 31, 2019 that will become effective in subsequent periods; however, management does not believe that any of those updates would have significantly affected our financial accounting measures or disclosures had they been in effect during 2019 or 2018, and it does not believe that any of those pronouncements will have a significant impact on our consolidated condensed financial statements at the time they become effective.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation. The reclassifications did not have any effect on reported consolidated net income for any periods presented.

(Amounts and shares in thousands, except per share amounts)

NOTE 3 – ACCOUNTS RECEIVABLE, MEDICAL RECEIVABLE AND MANAGEMENT AND OTHER FEES RECEIVABLE

Receivables, net is comprised of the following at December 31, 2019, and June 30, 2019:

	December 31, 2019		
	Gross Receivable	Allowance for doubtful accounts	Net
Accounts receivable	$ 4,318	$ 190	$ 4,128
Accounts receivable - related party	$ 60	—	$ 60
Medical receivable	$ 16,151	$ —	$ 16,151
Management and other fees receivable	$ 35,884	$ 8,602	$ 27,282
Management and other fees receivable from related medical practices ("PC's")	$ 9,129	$ 2,116	$ 7,013

	June 30, 2019		
	Gross Receivable	Allowance for doubtful accounts	Net
Accounts receivable	$ 3,927	$ 190	$ 3,737
Accounts receivable - related party	$ —	—	$ —
Medical receivable	$ 15,729	$ —	$ 15,729
Management and other fees receivable	$ 35,114	$ 9,405	$ 25,709
Management and other fees receivable from related medical practices ("PC's")	$ 8,812	$ 2,311	$ 6,501

The Company's customers are concentrated in the healthcare industry.

Accounts Receivable

Credit risk with respect to the Company's accounts receivable related to product sales and service and repair fees is limited due to the customer advances received prior to the commencement of work performed and the billing of amounts to customers as sub-assemblies are completed. Service and repair fees are billed on a monthly or quarterly basis and the Company does not continue providing these services if accounts receivable become past due. The Company controls credit risk with respect to accounts receivable from service and repair fees through its credit evaluation process, credit limits, monitoring procedures and reasonably short collection terms. The Company performs ongoing credit authorizations before a product sales contract is entered into or service and repair fees are provided.

(Amounts and shares in thousands, except per share amounts)

NOTE 3 – ACCOUNTS RECEIVABLE, MEDICAL RECEIVABLE AND MANAGEMENT AND OTHER FEES RECEIVABLE (CONTINUED)

Long Term Accounts Receivable

The Company generated revenue from long-term, non-cancellable contracts to provide service and repair services. Future revenue to be received over the next four years at December 31, 2019 are as follows:

2021	$	619
2022		619
2023		619
2024		464
Total	$	2,321

Medical Receivables

Medical receivables are due under fee-for-service contracts from third party payors, such as hospitals, government sponsored healthcare programs, patient's legal counsel and directly from patients. Substantially all the revenue relates to patients residing in Florida. The carrying amount of the medical receivable is reduced by an allowance that reflects management's best estimate of the amounts that will not be collected. The Company continuously monitors collections from its clients and maintains an allowance for bad debts based upon the Company's historical collection experience. The Company determines allowances for contractual adjustments and uncollectible accounts based on specific agings, specific payor collection issues that have been identified and based on payor classifications and historical experience at each site.

Management and Other Fees Receivable

The Company's receivables from the related and non-related professional corporations (PC's) substantially consist of fees outstanding under management agreements. Payment of the outstanding fees is dependent on collection by the PC's of fees from third party medical reimbursement organizations, principally insurance companies and health management organizations.

Payment of the management fee receivables from the PC's may be impaired by the inability of the PC's to collect in a timely manner their medical fees from the third party payors, particularly insurance carriers covering automobile no-fault and workers compensation claims due to longer payment cycles and rigorous informational requirements and certain other disallowed claims. Approximately 60% and 66% of the PCs' net revenues for the three months ended December 31, 2019 and 2018, respectively, were derived from no-fault and personal injury protection claims. Approximately 63% and 67% of the PCs' net revenues for the six months ended December 31, 2019 and 2018, respectively, were derived from no-fault and personal injury protection claims. The Company considers the aging of its accounts receivable in determining the amount of allowance for doubtful accounts. The Company generally takes all legally available steps to collect its receivables. Credit losses associated with the receivables are provided for in the condensed consolidated financial statements and have historically been within management's expectations.

(Amounts and shares in thousands, except per share amounts)

NOTE 3 – ACCOUNTS RECEIVABLE, MEDICAL RECEIVABLE AND MANAGEMENT AND OTHER FEES RECEIVABLE (CONTINUED)

Management and Other Fees Receivable (Continued)

Net revenues from management and other fees charged to the related PCs accounted for approximately 11.1% and 10.8% of the consolidated net revenues for the three months ended December 31, 2019 and 2018, respectively. Net revenues from management and other fees charged to the related PCs accounted for approximately 11.1% and 10.9% of the consolidated net revenues for the six months ended December 31, 2019 and 2018, respectively.

Tallahassee Magnetic Resonance Imaging, PA, Stand Up MRI of Boca Raton, PA and Stand Up MRI & Diagnostic Center, PA (all related medical practices) entered into a guaranty agreement, pursuant to which they cross guaranteed all management fees which are payable to the Company, which have arisen under each individual management agreement. Additional Company managed entities also operate under a guaranty agreement, pursuant to which management fees are payable to the Company.

The Company’s patient fee revenue, net of contractual allowances and discounts for the three and six months ended December 31, 2019 and 2018 are summarized in the following table.

	For the Three Months Ended December 31, 2019	For the Three Months Ended December 31, 2018
Commercial Insurance/ Managed Care	$ 1,335	$ 1,335
Medicare/Medicaid	276	270
Workers' Compensation/Personal Injury	4,112	3,956
Other	273	360
Patient Fee Revenue, net of contractual allowances and discounts	$ 5,996	$ 5,921

	For the Six Months Ended December 31, 2019	For the Six Months Ended December 31, 2018
Commercial Insurance/ Managed Care	$ 2,689	$ 2,515
Medicare/Medicaid	542	561
Workers' Compensation/Personal Injury	8,406	7,658
Other	404	712
Patient Fee Revenue, net of contractual allowances and discounts	$ 12,041	$ 11,446

(Amounts and shares in thousands, except per share amounts)

NOTE 4 - INVENTORIES

Inventories included in the accompanying condensed consolidated balance sheets consist of the following:

	December 31, 2019	June 30, 2019
Purchased parts, components and supplies	$ 1,644	$ 1,640
Work-in-process	107	158
TOTAL INVENTORIES	$ 1,751	$ 1,798

NOTE 5 - COSTS AND ESTIMATED EARNINGS ON UNCOMPLETED CONTRACTS

Information relating to uncompleted contracts is as follows:

	December 31, 2019	June 30, 2019
Costs incurred on uncompleted contracts	$ 584	$ 448
Estimated earnings	994	1,089
Subtotal	1,578	1,537
Less: Billings to date	1,437	1,012
Total Costs and estimated earnings in excess of billings on uncompleted contracts - net	$ 141	$ 525

NOTE 6 – OTHER INTANGIBLE ASSETS

Other intangible assets, net of accumulated amortization, in the accompanying condensed consolidated balance sheets consist of the following:

	December 31, 2019	June 30, 2019
Capitalized software development costs	$ 7,005	$ 7,005
Patents and copyrights	5,026	4,964
Non-compete	4,100	4,100
Customer relationships	3,800	3,800
Gross Other intangible assets	19,931	19,869
Less: Accumulated amortization	15,595	15,113
Other Intangible Assets	$ 4,336	$ 4,756

(Amounts and shares in thousands, except per share amounts)

NOTE 6 – OTHER INTANGIBLE ASSETS (CONTINUED)

Amortization of patents and copyrights for the three months ended December 31, 2019 and 2018 amounted to $47 and $49, respectively.

Amortization of non-compete for the three months ended December 31, 2019 and 2018 amounted to $147 and $147, respectively.

Amortization of customer relationships for the three months ended December 31, 2019 and 2018 amounted to $47 and $47, respectively.

Amortization of patents and copyrights for the six months ended December 31, 2019 and 2018 amounted to $94 and $99, respectively.

Amortization of non-compete for the six months ended December 31, 2019 and 2018 amounted to $293 and $293, respectively.

Amortization of customer relationships for the six months ended December 31, 2019 and 2018 amounted to $95 and $95, respectively.

NOTE 7 – OTHER CURRENT LIABILITIES

Other current liabilities in the accompanying condensed consolidated balance sheets consist of the following:

	December 31, 2019	June 30, 2019
Accrued salaries, commissions and payroll taxes	$ 1,697	$ 3,898
Litigation accruals	145	145
Sales tax payable	1,544	1,671
Legal and other professional fees	111	126
Accounting fees	60	105
Self-funded health insurance reserve	—	68
Accrued interest and penalty	1,080	1,054
Other	882	510
Other Current Liabilities	$ 5,519	$ 7,577

NOTE 8 – STOCKHOLDERS EQUITY

Common Stock

During the six months ended December 31, 2019, the Company issued 90 shares of common stock for costs and expenses of $1,990.

(Amounts and shares in thousands, except per share amounts)

NOTE 9 - SEGMENT AND RELATED INFORMATION

The Company operates in two industry segments - manufacturing and the servicing of medical equipment and management of diagnostic imaging centers.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies as disclosed in the Company's 10-K as of June 30, 2019. All inter-segment sales are market-based. The Company evaluates performance based on income or loss from operations.

Summarized financial information concerning the Company's reportable segments is shown in the following table:

	Medical Equipment	Management of Diagnostic Imaging Centers	Totals
For the three months ended Dec. 31, 2019			
Net revenues from external customers	$ 2,069	$ 19,382	$ 21,451
Inter-segment net revenues	$ 219	$ —	$ 219
(Loss) Income from operations	$ (790)	$ 5,811	$ 5,021
Depreciation and amortization	$ 94	$ 914	$ 1,008
Capital expenditures	$ 153	$ 2,116	$ 2,269
For the three months ended Dec. 31, 2018			
Net revenues from external customers	$ 2,444	$ 18,781	$ 21,225
Inter-segment net revenues	$ 227	$ —	$ 227
(Loss) Income from operations	$ (409)	$ 6,389	$ 5,980
Depreciation and amortization	$ 91	$ 861	$ 952
Capital expenditures	$ 25	$ 1,789	$ 1,814

	Medical Equipment	Management of Diagnostic Imaging Centers	Totals
For the six months ended Dec. 31, 2019			
Net revenues from external customers	$ 4,352	$ 38,845	$ 43,197
Inter-segment net revenues	$ 438	$ —	$ 438
(Loss) Income from operations	$ (1,526)	$ 12,033	$ 10,507
Depreciation and amortization	$ 185	$ 1,818	$ 2,003
Capital expenditures	$ 1,754	$ 2,964	$ 4,718
For the six months ended Dec. 31, 2018			
Net revenues from external customers	$ 4,652	$ 37,278	$ 41,930
Inter-segment net revenues	$ 455	$ —	$ 455
(Loss) Income from operations	$ (638)	$ 12,156	$ 11,518
Depreciation and amortization	$ 184	$ 1,690	$ 1,874
Capital expenditures	$ 45	$ 2,238	$ 2,283

NOTE 10 – SUPPLEMENTAL CASH FLOW INFORMATION

During the six months ended December 31, 2019 and December 31, 2018, the Company paid $14 and $147 for interest, respectively.

During the six months ended December 31, 2019 and December 31, 2018, the Company paid $228 and $180 for income taxes, respectively.

During the six months ended December 31, 2019, the Company recorded a current receivable of $950 from a landlord for tenant improvements.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

Litigation

The Company is subject to legal proceedings and claims arising from the ordinary course of its business, including personal injury, customer contract and employment claims. In the opinion of management, the aggregate liability, if any, with respect to such actions, will not have a material adverse effect on the consolidated financial position or results of operations of the Company.

There were no material changes in litigation from that reported in our Form 10-K for the fiscal year ended June 30, 2019.

Other Matters

The Company is also delinquent in filing sales tax returns for certain states, for which the Company has transacted business. As of December 31, 2019, the Company has recorded tax obligations of approximately $1,544 plus interest and penalties of approximately $1,034. The Company is in the process of determining the regulatory requirements in order to become compliant.

The Company maintains a self-funded health insurance program with a stop-loss umbrella policy with a third party insurer to limit the maximum potential liability for individual claims to $100 per person and for a maximum potential claim liability based on member enrollment. With respect to this program, the Company considers historical and projected medical utilization data when estimating its health insurance program liability and related expense. As of December 31, 2019 and June 30, 2019, the Company had approximately $0 and $68, respectively, in reserve for its self-funded health insurance programs. The reserves are included in "Other current liabilities" in the condensed consolidated balance sheets.

The Company regularly analyzes its reserves for incurred but not reported claims, and for reported but not paid claims related to its reinsurance and self-funded insurance programs. The Company believes its reserves are adequate. However, significant judgment is involved in assessing these reserves such as assessing historical paid claims, average lags between the claims' incurred date, reported dates and paid dates, and the frequency and severity of claims. There may be differences between actual settlement amounts and recorded reserves and any resulting adjustments are included in expense once a probable amount is known. There were no significant adjustments recorded in the periods covered by this report.

NOTE 12 - INCOME TAXES

In accordance with ASC 740-270, Income Taxes – Interim Reporting, the Company is required at the end of each interim period to determine the best estimate of its annual effective tax rate and apply that rate to year-to-date ordinary income or loss. The resulting tax expense (or benefit) is adjusted for the tax effect of specific events, if any, required to be discretely recognized in the interim period as they occur. For the six months ended December 31, 2019 and 2018, the Company recorded income tax expense of $2,039 in 2019 as compared to $2,341 in 2018. The 2019 provision is comprised of a current income tax component of $223 and a deferred income tax component of $1,816. Obligations for any liability associated with the current income tax provision, has been reduced, primarily resulting from the benefits and utilization of net operating loss carryforwards.

ASC topic 740 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a corporate tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. Differences between tax positions taken or expected to be taken in a tax return and the benefit recognized and measured pursuant to the interpretation are referred to as unrecognized benefits. A liability is recognized (or amount of net operating loss carryforward or amount of tax refundable is reduced) for an unrecognized tax benefit because it represents an enterprise’s potential future obligation to the taxing authority for a tax position that was not recognized as a result of applying the provisions of ASC topic 740. The Company believes there are no uncertain tax positions in prior years tax filings and therefore it has not recorded a liability for unrecognized tax benefits.

In accordance with ASC topic 740, interest costs related to unrecognized tax benefits are required to be calculated (if applicable) and would be classified as “Interest expense, net”. Penalties if incurred would be recognized as a component of “Selling, general and administrative” expenses.

The Company files corporate income tax returns in the United States (federal) and in various state and local jurisdictions. In most instances, the Company is no longer subject to federal, state and local income tax examinations by tax authorities for years prior to 2015.

The Company recorded a deferred tax asset of $19,122 and a deferred tax liability of $243 as of December 31, 2019, primarily relating to net operating loss carryforwards of approximately $57,406 available to offset future taxable income through 2030. The net operating losses begin to expire in 2023 for federal tax and state income tax purposes.

Future ownership changes as determined under Section 382 of the Internal Revenue code could further limit the utilization of net operating loss carryforwards. As of December 31, 2019, no such changes in ownership have occurred.

NOTE 12 - INCOME TAXES(CONTINUED)

The ultimate realization of deferred tax assets is dependent on the generation of future taxable income during the periods in which those temporary differences become deductible or when such net operating losses can be utilized. The Company considers projected future taxable income, the regulatory environment of the industry and tax planning strategies in making this assessment. At present, the Company believes that it is more likely than not that the benefits from certain deferred tax asset carryforwards, will not all be fully realized. In recognition of this inherent risk, a valuation allowance was established for the partial value of the deferred tax asset, (principally related to research and development tax credits).

A valuation allowance will be maintained until sufficient positive evidence exists to support the reversal of the remainder of the valuation.

NOTE 13 – SUBSEQUENT EVENTS

The Company has evaluated events that occurred subsequent to December 31, 2019 and through the date the condensed consolidated financial statements were issued.

Item 2. – MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

For the six month period ended December 31, 2019, we reported a net income of $8.7 million on revenues of $43.2 million as compared to net income of $9.4 million on revenues of $41.9 million for the six month period ended December 31, 2018. Operating income decreased from $11.5 million for the six month period ended December 31, 2018 to $10.5 million for the six month period ended December 31, 2019.

For the three month period ended December 31, 2019, we reported a net income of $4.2 million on revenues of $21.5 million as compared to net income of $4.9 million on revenues of $21.2 million for the three month period ended December 31, 2018.

The revenue increase of 3.0%, from $41.9 million for the first six months of fiscal 2019 to $43.2 million for the first six months of fiscal 2020, was primarily due to increases in net management fees of $1.0 million, from $25.8 million for the first six months of fiscal 2019 to $26.8 million for the first six months of fiscal 2020. Revenues from product sales and service and repair fees decreased by $300,000 from $4.7 million for the first six months of fiscal 2019 to $4.4 million for the first six months of fiscal 2020.

While our revenues increased, our costs and expenses increased by a larger amount, resulting in our operating income decreasing to $10.5 million for the six months ended December 31, 2019 as compared to $11.5 million for the six months ended December 31, 2018. In terms of percentages, costs and expenses increased 7.5% from $30.4 million for the first six months of fiscal 2019 to $32.7 million for the first six months of fiscal 2020, while revenues increased 3.0%, from $41.9 million for the first six months of fiscal 2019 to $43.2 million for the first six months of fiscal 2020.

Fonar’s wholly-owned subsidiary, Health Management Corporation of America (“HMCA”), is the controlling interest, of Health Diagnostics Management, LLC (“HDM”). HMCA presently has a direct ownership interest of 70.0% in HDM, and the investors in HDM have a 30.0% ownership interest.The entire management of the diagnostic imaging centers business segment is being conducted by HDM, operating under the name “Health Management Company of America”. For the sake of simplicity, HMCA, and HDM are referred to as “HMCA”, unless otherwise indicated.

Forward Looking Statements

Certain statements made in this Quarterly Report on Form 10-Q are "forward-looking statements" (within the meaning of the Private Securities Litigation Reform Act of 1995) regarding the plans and objectives of Management for future operations. Such statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The forward-looking statements included herein are based on current expectations that involve numerous risks and uncertainties. Our plans and objectives are based, in part, on assumptions involving the expansion of business. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond our control. Although we believe that our assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Report will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statement included herein, the inclusion of such information should not be regarded as a representation by us or any other person that our objectives and plans will be achieved.

Results of Operations

We operate in two industry segments: the manufacture and servicing of medical (MRI) equipment, which is conducted by Fonar, and diagnostic facilities management services, which is conducted through HMCA.

Manufacturing and Service of MRI Equipment

Revenues from MRI product sales decreased to $195,000 for the first six months of fiscal 2020 from $445,000 for the first six months of fiscal 2019. Costs related to product sales increased, from $322,000 for the six month period ended December 31, 2018 to $450,000 for the six month period ended December 31, 2019. Economic uncertainty and lower reimbursement rates for MRI scans, have depressed the market for our MRI scanner products, notwithstanding our scanners' unique technological capabilities (e.g. multi positional scanning).

Service revenues decreased 1.2% from $4.2 million for the six month period ended December 31, 2018 to $4.1 million for the six month period ended December 31, 2019. Continuing lower sales volumes have been a factor ultimately contributing to the decrease in service revenues, as the revenue from new scanners being placed under service agreements, following the expiration of their warranties, is insufficient to replace the revenue lost as a result of older scanners being taken out of service.

Costs relating to providing service remained constant at $1.5 million in the first six months of fiscal 2019 and fiscal 2020. Because of our ability to monitor the performance of customers' scanners from our facilities in Melville, New York on a daily basis and to detect and repair any irregularities before more serious and costly problems developed, we have been able to control our costs of providing service.

There were approximately $307,000 in foreign revenues for the first six months of fiscal 2020 as compared to approximately $288,000 in foreign revenues for the first six months of fiscal 2019, representing a decrease in foreign revenues of 6.6%. We do not regard this as a material trend, but as part of a normal although sometimes volatile variation resulting from low volumes of foreign sales.

We recognize MRI scanner sales revenues on the "percentage of completion" basis, which means the revenues are recognized as the scanner is manufactured. Revenues recognized in a particular quarter do not necessarily reflect new orders or progress payments made by customers in that quarter. We build the scanner as the customer meets certain benchmarks in its site preparation in order to minimize the time lag between incurring costs of manufacturing and our receipt of the cash progress payments from the customer which are due upon delivery. Consequently, there can be a disparity between the revenues recognized in a fiscal period and the number of product sales. Generally, the revenues from a scanner sale are recognized in a fiscal quarter or quarters following the quarter in which the sale was made.

Revenues for the medical equipment segment decreased to $4.4 million for the first six months of fiscal 2020 from $4.7 million for the first six months of fiscal 2019. Operating losses for our medical equipment segment increased to an operating loss of $1.5 million, for the first six months of fiscal 2020 as compared to an operating loss of $638,000 for the first six months of fiscal 2019.

Diagnostic Facilities Management Services

HMCA revenues increased in the first six months of fiscal 2020 by 4.2% to $38.8 million from $37.3 million for the first six months of fiscal 2019. The percentage of our revenues derived from our diagnostic facilities management segment relative to the percentage of our revenues derived from our medical equipment segment increased slightly to 89.9% for the first six months of fiscal 2020, from 88.9% for the first six months of fiscal 2019.

The increase in HMCA revenues is principally due to HMCA's success in marketing the scanning services of the facilities managed or owned by HMCA, notwithstanding the decrease in reimbursement rates paid for MRI scans by insurers, Medicare and other government programs. The reductions in reimbursement rates are not unique to HMCA or HMCA's clients but are being experienced by the industry in general.

HMCA is countering the effects of lower reimbursement rates by increasing the scan volume of the facilities it owns or manages by adding additional scanners at current centers and increasing our marketing efforts.

As a result of our vigorous marketing efforts, the number of scans performed at our centers and at our client's centers increased from approximately 89,000 in the first six months of fiscal 2019 to approximately 94,000 in the first six months of fiscal 2020.

We manage twenty-five sites, twenty-three of which are equipped with Fonar Upright® MRI scanners (our Upright® MRI Scanners are also called Stand-Up® MRI Scanners). HMCA experienced an operating income of $12.0 million for the first six months of fiscal 2020 compared to operating income of $12.2 million for the first six months of fiscal 2019 due to greater increase in costs and expenses.

HMCA's cost of revenues for the first six months of fiscal 2020 as compared to the first six months of fiscal 2019 increased by 7.4% from $19.7 million to $21.2 million primarily as a result of the higher volume of scans performed and an increase in selling, general and administrative expense which outpaced revenue growth.

Consolidated

For the first six months of fiscal 2020, our consolidated net revenues increased by 3.0% to $43.2 million from $41.9 million for the first six months of fiscal 2019, and total costs and expenses increased by 7.5% to $32.7 million from $30.4 million for the first six months of fiscal 2020 and for the first six months of fiscal 2019 respectively. As a result, our operating income decreased to $10.5 million in the first six months of fiscal 2020 as compared to $11.5 million in the first six months of fiscal 2019. An increased selling, general and other administrative costs in particular resulted in the growth of cost and expenses.

Selling, general and administrative expenses increased to $8.5 million in the first six months of fiscal 2020 from $7.9 million in the first six months of fiscal 2019. The compensatory element of stock issuances, which is included in selling, general and administrative expenses, remained constant at $0 for the first six months of fiscal 2020 and 2019.

Research and development expenses increased by 6.9% to $1.1 million for the first six months of fiscal 2020 from $1.0 million for the first six months of fiscal 2019.

Interest expense in the first six months of fiscal 2020 decreased by 20% to $40,000 from $50,000 in the first six months of fiscal 2019. The decrease was due to the repayment of debt.

Inventories remained constant at $1.8 million at December 31, 2019 and at June 30, 2019.

Net management fee and medical receivables increased by 5.2% to $50.4 million at December 31, 2019 from $47.9 million at June 30, 2019 as a result of slower collections. The slower collections were primarily due to an increase in no-fault and workers' compensation revenue, which typically takes longer to collect.

The results of operations for the first six months of fiscal 2020 reflect an increase in revenues from management, patient and other fees, as compared to the first six months of fiscal 2019 ($38.8 million for the first six months of fiscal 2020 as compared to $37.3 million for the first six months of fiscal 2019), and an decrease in MRI equipment segment revenues ($4.4 million as compared to $4.7 million). Revenues were 10.1% from the MRI equipment segment as compared to 89.9% from HMCA, for the first six months of fiscal 2020, as compared to 11.1% from the MRI equipment segment and 88.9% from HMCA for the first six months of fiscal 2019.

The implementation of the Patient Protection and Affordable Care Act (PPACA) has had a profound impact on the healthcare industry. We are experiencing some of the impact of the Act on our business in the reduction of reimbursement rates and fewer sales of our MRI equipment. Efforts to repeal and replace, or modify the PPACA may result in further significant changes in the healthcare industry and our business.

We are committed to improving our operating results and dealing with the challenges posed by legislative and regulatory requirements. Nevertheless, factors beyond our control, such as the timing and rate of market growth, economic conditions, the availability of credit and payor reimbursement rates, or unexpected expenditures and the timing of such expenditures, make it difficult to forecast future operating results.

As mentioned, one of the effects of the PPACA on our business has been the reduction in Medicare reimbursement rates for MRI scans. This also has resulted in a reduction in the reimbursement rates by commercial insurers and government programs which tie their reimbursement rates to the Medicare rates. Nevertheless, the increased patient volume of the scanning centers we manage or own has enabled us to maintain a healthy profitability in spite of these challenges. We believe we are pursuing the correct policies to cope with these problems and to improve the Company's operating results. However, our future revenues and results of operations may be adversely impacted by future reductions in reimbursement rates.

Our Upright® MRI (also referred to as the Stand-Up® MRI), together with our works-in-progress, are intended to significantly improve our competitive position.

The Upright® MRI scanner, which operates at 6000 gauss (.6 Tesla) field strength, allows patients to be scanned while standing, sitting, reclining and in multiple flexion and extension positions. It is common in visualizing the spine that abnormalities are visualized in some positions and not others. This enables surgical corrections that heretofore would be unaddressable for lack of visualizing the symptom causing the pathology and therefore, in general enables the treating physician to achieve a better treatment outcome for his patient. A floor-recessed elevator brings the patient to the height appropriate for the targeted image region. A custom-built multi-position adjustable bed will allow patients to sit or lie on their backs, sides or stomachs at any angle. This allows the MRI technologist to ask the patient to position himself/herself in the exact position that generates his/her pain so that images of the patient in the position that explicitly generates the patient's pain can be nailed down. Full-range-of-motion studies of the joints in virtually any direction are possible, a particularly promising feature for sports injuries.

In addition FONAR has announced the publication of a book "THE CRANIOCERVICAL SYNDROME and MRI" that highlights the unique attributes of FONAR UPRIGHT® MRI Imaging (S. Karger, A.G. based in Basel, Switzerland- www.karger.com/Book/Home/261956) which has been published by S. Karger, an approximately 125 year old company and an academic publisher of scientific and medical journals and books. The seven chapter monograph examines the rapid advances in MRI made possible by the FONAR UPRIGHT® Multi-Position MRI that are transforming the treatment of patients suffering from the craniocervical syndrome (CCS). It is written by leading international experts in the field to practitioners with a better understanding of the subtle anatomy and MRI appearances at the craniocervical junction, along with insight into the clinical significance of cerebrospinal fluid (CSF) flow measurements and its potential role in generating the devastating impairments of the neurodegenerative diseases: Alzheimer's (5.1 million patients in the United States), childhood and adult Autism (3.0 million), Parkinson's (1.0 million), Multiple Sclerosis (250,000-350,000) and Amyotrophic Lateral Sclerosis (ALS) (30,000). It calls attention to the revolutionary importance of FONAR's UPRIGHT® MRI imaging technology and the prospect of significantly relieving the suffering of the above totaled 9.38 million patients afflicted with these disorders.

Fonar also announced a major diagnostic breakthrough in multiple sclerosis achieved with advanced Upright® MRI. Medical researchers at FONAR published a paper reporting a diagnostic breakthrough in multiple sclerosis (MS), based on observations made possible by the Company's unique Upright® Multi-Position™ MRI scanner. The findings reveal that the cause of multiple sclerosis may be biomechanical and related to earlier trauma to the neck, which can result in obstruction of the flow of cerebrospinal fluid (CSF), which is produced and stored in the central anatomic structures of the brain known as the ventricles. Since the ventricles produce a large net volume of CSF each day (500 cc), the obstruction can result in a build up of pressure within the ventricles, resulting in leakage of the CSF and the antigenic polypeptides it contains into the surrounding brain tissue. This leakage could be responsible for generating the brain lesions of multiple sclerosis.

The paper, titled “The Possible Role of Cranio-Cervical Trauma and Abnormal CSF Hydrodynamics in the Genesis of Multiple Sclerosis," appears in the of the journal Physiological Chemistry and Physics and Medical NMR (Sept. 20, 2011).

This capability of the Fonar Upright® technology has demonstrated its key value on patients with the Arnold-Chiari syndrome [Cerebellar Tonsil Extopia (CTE)], which is believed to affect 200,000 to 500,000 Americans. In this syndrome, brain stem compression and subsequent severe neurological symptoms occur in these patients, because the brain stem descends and is compressed at the base of the skull in the foramen magnum, which is the circular bony opening at the base of the skull where the spinal cord exits the skull. Conventional lie-down MRI scanners cannot make an adequate evaluation of this pathology since the patient's pathology is most visible and the symptoms most acute when the patient is scanned in the upright fully weight-bearing position.

A combined study of 1,200 neck pain patients published in “Brain Injury” (July 2010) by eight university medical centers reported that cerebellar tonsil ectopia (CTE) of 1mm or greater was found and visualized 2.5 times (250%) more frequently when patients who had sustained automobile whiplash injuries were scanned upright rather than lying down.

The Upright® MRI has also demonstrated its value for patients suffering from scoliosis. Scoliosis patients have been typically subjected to routine x-ray exams for years and must be imaged upright for an adequate evaluation of their scoliosis. Because the patient must be standing for a complete evaluation of the extent of the patient’s scoliosis, an x-ray machine has been the only modality that could provide that service. The Upright® MRI is the only MRI scanner which allows the patient to stand during the MRI exam. Fonar has developed an RF receiver and scanning protocol that for the first time allows scoliosis patients to obtain diagnostic pictures of their spines without the risks of x-rays. A study by the National Cancer Institute (2000) of 5,466 women with scoliosis reported a 70% increase in breast cancer resulting from 24.7 chest x-rays these patients received on the average in the course of their scoliosis treatment. The Upright® MRI examination of scoliosis enables the needed imaging evaluation of the degree of spine scoliosis without exposing the patient to the risk of breast cancer from x-radiation. Currently scoliosis affects more than 3,000,000 American women.

In addition, the University of California, Los Angeles (UCLA) reported their results of their study of 1,302 patients utilizing the Fonar Upright® MRI at the 22nd Annual Meeting of the North American Spine Society on October 23, 2007. The UCLA study showed the superior ability of the Fonar Upright® MRI to detect spine pathology, including spondylolisthesis, disc herniations and disc degeneration, as compared to visualizations of the spine produced by traditional single position static MRIs.

The UCLA study by MRI of 1,302 back pain patients when they were in the Fonar Upright® MRI and examined in a full range of flexion and extension positions made possible by Fonar's new Upright® technology established that significant "misses" of pathology were occurring with static single position MRI imaging. At L4-5, the vertebral level responsible for 49.8% of lumbar disc herniations, 35.1% of the spondylolistheses (vertebral instabilities) visualized by the Upright® MRI, were being missed by static single position MRI (510 patients). Since this vertebral segment is responsible for the majority of all disc herniations, the finding may reveal a significant cause of failed back surgeries. The UCLA study further showed the "miss-rate" of vertebral instabilities by static only MRI was even higher, 38.7%, at the L3-4 vertebral segment. Additionally, the UCLA study showed that MRI examinations of the cervical spine that did not perform extension images of the neck "missed" disc bulges 23.75% of the time (163 patients).

The UCLA study further reported that they were able to quantitatively measure the dimensions of the central spinal canal with the "highest accuracy" using the FONAR Upright® MRI thereby enabling the extent of spinal canal stenosis that existed in patients to be measured. Spinal canal stenosis gives rise to the symptom complex intermittent neurogenic claudication manifest as debilitating pain in the back and lower extremities, weakness and difficulties in ambulation and leg paresthesias. Spinal canal stenosis is a spinal compression syndrome separate and distinct from the more common nerve compression syndrome of the spinal nerves as they exit the vertebral column through the bony neural foramen.

The Fonar Upright® MRI can also be useful for MRI directed emergency neuro-surgical procedures as the surgeon would have unhindered access to the patient's head when the patient is supine with no restrictions in the vertical direction. This easy-entry, mid-field-strength scanner could prove ideal for trauma centers where a quick MRI-screening within the first critical hour of treatment will greatly improve patients' chances for survival and optimize the extent of recovery.

MRI has brought a new dimension to MEDICAL TREATMENT, the power to VISUALIZE ANATOMIC DETAIL in the body's VITAL SOFT TISSUES (brain, heart, kidney, liver, spleen, lungs, pancreas, intestines) plus MRI's new power to non-invasively QUANTIFY (e.g. measure T1, T2, diffusion, chemical spectra) the response of these VITAL TISSUES to treatment.

Liquidity and Capital Resources

Cash and cash equivalents increased by 9.8% from $13.9 million at June 30, 2019 to $15.4 million at December 31, 2019.

Cash provided by operating activities for the first six months of fiscal 2020 was $10.2 million. Cash provided by operating activities was attributable principally to net income of $8.7 million, depreciation and amortization of $2.0 million and deferred income tax of $1.8 million, offset by an increase in accounts, management fee receivables and medical receivables of $4.3 million and a decrease in operating lease liabilities of $1.4 million.

Cash used in investing activities for the first six months of fiscal 2020 was $4.9 million. The principal uses of cash used in investing activities during the first six months of fiscal 2020 consisted of patent costs of $62,000 and the purchase of property and equipment of $4.7 million.

Cash used in financing activities for the first six months of fiscal 2020 was $3.8 million. The principal uses of cash in financing activities during the first three months of fiscal 2020 were the repayment of principal on long-term debt and capital lease obligations of $24,000 and distributions to non-controlling interests of $3.7 million.

Total liabilities increased by 200.8% to $46.6 million at December 31, 2019 from $15.4 million at June 30, 2019. This was primarily due to the adoption of the new accounting pronouncement regarding leases in the amount of $31.9 million. “Other” current liabilities decreased by 27.2% to $5.5 million at December 31, 2019 from $7.6 million at June 30, 2019. Long-term debt and capital lease obligations decreased from $273,000 to $256,000. The current portion of our unearned revenue on service contracts increased from $3.8 million to $4.0 million. Customer deposits increased from $799,000 at June 30, 2019 to $827,000 at December 31, 2019 as a result of an increase in services performed.

As of December 31, 2019, the total of $5.5 million in “other” current liabilities included accrued salaries and payroll taxes of $1.7 million, and sales taxes of $1.5 million plus accrued interest and penalties of $1.0 million.

Our working capital increased to $75.1 million at December 31, 2019 from $71.0 million at June 30, 2019. This resulted from an increase in current assets ($85.1 million at June 30, 2019 as compared to $90.0 million at December 31, 2019), and a smaller increase in current liabilities from $14.1 million at June 30, 2019 to $14.9 million at December 31, 2019.

The ultimate realization of deferred tax assets is dependent on the generation of future taxable income during the periods in which those temporary differences become deductible or when such net operating losses can be utilized. The Company considers projected future taxable income, the regulatory environment of the industry, and tax planning strategies in making this assessment. At the present, the Company believes that it is more likely than not that the benefits from certain deferred tax asset carryforwards, will not all be fully realized. In recognition of this inherent risk, a valuation allowance was established for the partial value of the deferred tax asset, (principally related to research and development tax credits and allowance for doubtful accounts). A valuation allowance will be maintained until sufficient positive evidence exists to support the reversal of any portion or all of the valuation allowance.

The Company’s effective income tax rate is based on expected income, statutory rates and tax planning opportunities available in the various jurisdictions in which it operates. For interim financial reporting, the Company estimates the annual income tax rate based on projected taxable income for the full year and records a quarterly income tax provision or benefit in accordance with the anticipated annual rate. The Company refines the estimates of the year’s taxable income on a periodic basis as new information becomes available, including actual year-to-date financial results. This continual estimation process often results in a change to the expected effective income tax rate for the year. When this occurs, the Company adjusts the income tax provision during the quarter in which the change in estimate occurs so that the year-to-date provision reflects the expected income tax rate. Significant judgment is required in determining the effective tax rate and in evaluating tax positions.

The Tax Cuts and Jobs Act was signed into law on December 22, 2017 and made numerous changes to the Internal Revenue Code. Among other changes, the Act reduced the US corporate income tax rate to 21% effective January 1, 2018.

Under ASC Topic 740, Accounting for Income Taxes, the enactment of the Tax Act also required companies, to recognize the effects of changes in tax laws and rates on deferred tax assets and liabilities and the retroactive effects of changes in tax laws in the period in which the new legislation in enacted. The Company's gross deferred tax assets and liabilities were revalued form 35% to 21%. Deferred tax assets of approximately $46.2 million (as of the enactment effective date) were revalued to approximately $30.2 million with a corresponding decrease to the Company's valuation allowance.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, (Topic 606). ASU 2014-09 requires an entity to recognize as revenue the amount that reflects the consideration which it expects to be entitled in exchange for goods and services as it transfers control to its customers. It also requires more detailed disclosures to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The Company earns revenue from the sale of scanners, maintenance contracts, product upgrades, patient services and management fees. Under the new guidance, the reporting for patient services revenue is now reported differently. All other streams of revenue were not impacted by the new guidance. The primary change for healthcare providers under the new guidance relates to revenue generated from patient services, with patient responsibility for payment. Under the new guidance, the Company is required to report an implicit price concession (both initially and for the subsequent changes in estimates) as a reduction of revenues as opposed to bad debt expense as a component of operating expenses. The Company now records any changes in expectation of collection amounts due to patient specific events that suggests that the patient no longer has the ability and intent to pay the amount due through the bad debt expense, as that is more indicative of a change in the customer's credit worthiness as opposed to change in the transaction price.

The new standard supersedes most current revenue guidance, including industry-specific guidance. The guidance became effective for the Company on July 1, 2018 and as part of adopting the standard, the Company identified revenue streams of like contracts to allow for ease of implementation. The Company used primarily a portfolio approach to apply the new model to classes of customers with similar characteristics. The impact of adopting the new standard on our total revenue; and income from operations was not material. While the adoption of ASU 2014-09 did impact the presentation of net operating revenues in our Consolidated Statements of Operations and impacts certain disclosures, it did not materially impact our financial position, results of operations or cash flows. There was no cumulative effect of a change in accounting principle recorded related to the adoption of ASU 2014-09 on July 1, 2018.

Fonar has not committed to making any significant capital expenditures for the remainder of the 2020 fiscal year with the exception of placing additional scanners at facilities located in Islandia and White Plains, New York. Also we signed a lease for a new location for a new facility in Pembroke Pines, Florida.

Critical to our business plan are the improvement and expansion of the MRI facilities managed or owned by HMCA, and increasing the number of scans performed at those facilities. In addition, our business plan calls for a continuing commitment to providing our customers with enhanced equipment service and maintenance capabilities and delivering state-of-the-art, innovative and high quality equipment and upgrades at competitive prices.

Management is seeking to promote wider market recognition of Fonar's scanner products, and to increase demand for Upright® scanning at the facilities HMCA owns or manages. Given the liquidity and credit constraints in the markets, and the uncertainty resulting from the Patient Protection and Affordable Care Act or its repeal and replacement, the sale of medical equipment has and may continue to suffer.

The Company believes that its business plan has been responsible for the past seven consecutive fiscal years and past fiscal quarter of profitability and that its capital resources will be adequate to support operations at current levels through at least December 31, 2020. The future effects on our business of healthcare legislation, the Deficit Reduction Act, the 2.3% excise tax on sales of medical equipment, reimbursement rates and the general economic and business climate are not known at the present time. Nevertheless, there is a possibility of adverse consequences to our business operations from these causes.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company maintains its funds in liquid accounts. None of our investments are in fixed rate instruments.

All of our revenue, expense and capital purchasing activities are transacted in United States dollars.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

We carried out an evaluation as of the end of the period covered by this Quarterly Report on Form 10-Q, under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the ''Exchange Act''). Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Based upon our evaluation, our chief executive officer and chief financial officer has concluded that the Company's internal control over financial reporting was not effective as of the end of the period covered by this Quarterly Report on Form 10-Q because the company has not yet completed its remediation of the material weakness previously identified and disclosed in the Company's Annual Report on Form 10K for the year ended June 30, 2019, the end of its most recent fiscal year. Specifically, management has determined that adequate controls did not exist over the classification of certain financial instruments as cash equivalents or short term investments. As of the end of the period covered by this Quarterly Report on Form 10-Q, The Company has designed and implemented controls to properly classify cash and cash equivalents and short term investments. The Company believes it will have been adequately tested for a sufficient period of time ending March 31, 2020 which should demonstrate that the material weakness has been remediated. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis

To remediate the material weakness described above, we have designed and implemented compensating controls and are enhancing and revising the design of existing controls and procedures to ensure the proper classification of financial instruments as cash equivalents or as short-term or long-term investments. This material weakness will not be considered to be remediated until the applicable remediated controls are operating for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively.

Changes in Internal Control over Financial Reporting

Other than to the extent described above, there were no changes in our system of internal control over financial reporting during our most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1 – Legal Proceedings: There were no material changes in litigation from that reported in our Form 10-K for the fiscal year ended June 30, 2019 or the fiscal quarter ended December 31, 2019.

Item 1A – Risk Factors: An investment in the securities of the Company is subject to various risks, the most significant of which are summarized below.

1. Reduced Reimbursement Rates. Most of our revenues are derived from our scanning center business conducted by HMCA. Our scanning center clients and the Florida facilities owned by HMCA are experiencing lower reimbursement rates from Medicare, other government programs and private insurance companies. To date, the impact of these reductions has been countered by increasing scanning volume and reducing our operating expenses, thereby maintaining profitability in this business segment. There is, however, no assurance that we will be able to continue to do so.

2. Demand for MRI Scanners. The reduced reimbursement rates also affects our sales of MRI scanners negatively. With lower revenue projections, fewer prospective customers will be able to operate, and others are likely to demand lower prices for scanners. Although the reduced reimbursements may not affect foreign demand, a lower number of sales in the aggregate could reduce economies of scale and consequently, profit margins.

3. Manufacturing Competition. Many if not most of our competing scanner manufacturers have significantly greater financial resources, production capacity, and other resources than we do. Such competitors would include General Electric, Siemens, Hitachi and Phillips. Although Fonar is the only company which can manufacture and sell the unique Stand-Up® (Upright®) MRI scanner, potential customers must be convinced that the purchase of a Fonar scanner is their best choice. We believe that with time, that objective will be reached, particularly with customers scanning patients having neck, back, knee and various orthopedic issues who would benefit from being scanned in weight-bearing positions.

4. Dependence on Referrals. HMCA derives substantially all of its revenue, directly or indirectly, from fees charged for the diagnostic imaging services performed at the facilities. We depend on referrals of patients from unaffiliated physicians and other third parties to the facilities we manage or own for the MRI scanning services performed. If these physicians and other third parties were to reduce the number of patients they refer or discontinue referring patients, scan volumes could decrease, which would have the effect of reducing our net revenue, from both management and scanning fees, and operating margins.

5. Pressure to Control Healthcare Costs. One of the principal objectives of health maintenance organizations and preferred provider organizations is to control the cost of healthcare services. Healthcare providers participating in managed care plans may be required to refer diagnostic imaging tests to certain providers depending on the plan in which a covered patient is enrolled. In addition, managed care contracting has become very competitive. The expansion of health maintenance organizations, preferred provider organizations and other managed care organizations within New York or Florida could have a negative impact on the utilization and pricing of services performed at the facilities HMCA manages or owns to the extent these organizations exert control over patients' access to diagnostic imaging services, selections of the provider of such services and reimbursement rates for those services.

6. Scanning Facility Competition. The market for diagnostic imaging services is highly competitive. The facilities we manage or own compete for patients on the basis of reputation, location and the quality of diagnostic imaging services. Groups of radiologists, established hospitals, clinics and other independent organizations that own and operate imaging equipment are the principal competitors.

7. Eligibility Changes to Insurance Programs. Due to potential decreased availability of healthcare through private employers, the number of patients who are uninsured or participate in governmental programs may increase. Healthcare reform legislation will increase the participation of individuals in the Medicaid program in states that elect to participate in the expanded Medicaid coverage, subject to any changes which may result from efforts to repeal and replace the PPACA. A shift in payor mix from managed care and other private payors to government payors or an increase in the number of uninsured patients may result in a reduction in the rates of reimbursement or an increase in uncollectible receivables or uncompensated care, with a corresponding decrease in net revenue. Policies now being offered under various insurance plans are expected to reduce demand for MRI scans as they become less affordable. Changes in the eligibility requirements for governmental programs such as the Medicaid program and state decisions on whether to participate in the expansion of such programs also could increase the number of patients who participate in such programs and the number of uninsured patients. Even for those patients who remain in private insurance plans, changes to those plans could increase patient financial responsibility, resulting in a greater risk of uncollectible receivables. These factors and events could have a material adverse effect on our business, financial condition, and results of operations.

8. Proposed Changes to New York Workers' Compensation Benefits. A proposal was published by the New York State Workers' Compensation Board ("NYSWCB") in 2014 to change the fee schedule for Workers' Compensation payments. Initially, the fees proposed would be set at approximately 130% of the Medicare fees. This would reduce fees for the most commonly billed radiology procedures by approximately 60%. Further, since the Workers' Compensation fees are coupled with the New York State No Fault Program, radiology providers would suffer similar reductions for No-Fault fees. We and the HMCA clients wrote to the NYSWCB to argue against this proposal, and other affected parties commented as well. Since then, no further action has been taken by the NYSWCB to advance the 2014 proposal. On the contrary, the NYSWCB has adopted fee increases. There can be no assurance, however, that the NYSWCB will not modify their present position, or if they elect to do so, the extent to which the NYSWCB would do so. A significant reduction in Workers' Compensation and No-Fault fees could have a material adverse impact on our business.

9. Possible changes in Florida Insurance Law. In early 2019, two senate bills and one house bill in Florida were introduced, all of them calling for the repeal of PIP and replacing PI with $25,000 Bodily Injury Coverage and Property Damage Liability Coverage. Another Florida senate bill was introduced that would preserve PIP but dramatically cut reimbursement rates. None of the proposed bills ever made it onto the 2019 legislative agenda, but similar efforts in the future might be successful. Currently, drivers and passengers get car damages and PIP paid for up to $10,000, no matter who is at fault in an accident. Drivers have to pay an additional cost to insurance companies to pay for bodily injuries, which covers them if they are at fault. While PIP is required, coverage for bodily injury is not. The insurance industry is pushing to scrap PIP and instead mandate all motorists to carry coverage that includes a minimum of $25,000 bodily injury if they are at fault. Eliminating PIP would mean that the $10,000 drivers now get paid toward medical costs through their insurers might not be there for them to pay for injured drivers. Importantly, payments would be reduced by approximately 60% due to claims being paid at commercial rates or through legal settlements instead of at the presently prevailing PIP fee schedule. This would negatively impact our seven diagnostic imaging facilities (both those we own and those we manage) with more unpaid bills, lower reimbursement rates and elongated waiting times.

10. Federal and state privacy and information security laws. We must comply with numerous federal and state laws and regulations governing the collection, dissemination, access, use, security and privacy of PHI, including HIPAA and its implementing privacy and security regulations, as amended by the federal HITECH Act and collectively referred to as HIPAA. If we fail to comply with applicable privacy and security laws, regulations and standards, properly maintain the integrity of our data, protect our proprietary rights to our systems, or defend against cybersecurity attacks, our business, reputation, results of operations, financial position and cash flows could be materially and adversely affected.

Information security risks have significantly increased in recent years in part because of the proliferation of new technologies, the use of the internet and telecommunications technologies to conduct our operations, and the increased sophistication and activities of organized crime, hackers, terrorists and other external parties, including foreign state agents. Our operations rely on the secure processing, transmission and storage of confidential, proprietary and other information in our computer systems and networks.

11. Changes in Domestic and Worldwide Economic Conditions. We are subject to risk arising from adverse changes in general domestic and global economic conditions, including recession or economic slowdown and disruption of credit markets. Turbulence and uncertainty in the United States and international markets and economies may adversely affect our liquidity, financial condition, revenues, profitability and business operations generally.

Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds: None

Item 3 - Defaults Upon Senior Securities: None

Item 4 - Mine Safety Disclosure: Not Applicable

Item 5 - Other Information: None

Item 6 - Exhibits and Reports on Form 8-K:

a) Exhibit 31.1 Certification. See Exhibits

b) Exhibit 32.1 Certification. See Exhibits

c) Report on Form 8-K filed on November 13, 2019, Item 2.02: Results of Operations and Financial Condition for the fiscal quarter ended September 30, 2019.

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.

FONAR CORPORATION
(Registrant)

By: /s/ Timothy Damadian
Timothy Damadian
President and
Principal Executive Officer

/s/ Raymond V. Damadian
Raymond V. Damadian
Chairman of the Board,
Treasurer and
Acting Principal Financial Officer

Dated: February 10, 2020