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 MARCH 31, 2023

Commission file number 0-10248

FONAR

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

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 ___ Non-accelerated filer _X_ 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_

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

Title of each class	Trading symbol	Name of each exchange on which registered
Common Stock	FONR	NASDAQ Capital Market

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 May 5, 2023
Common Stock, par value $.0001	6,538,148
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

	March 31, 2023	June 30, 2022 *
Current Assets:		
Cash and cash equivalents	$ 49,640	$ 48,723
Short term investments	32	32
Accounts receivable – net	3,720	4,336
Accounts receivable - related party	30	—
Medical receivable – net	20,460	20,109
Management and other fees receivable – net	35,201	33,419
Management and other fees receivable – related medical practices – net	9,088	8,603
Inventories	2,661	2,360
Prepaid expenses and other current assets	1,166	1,104
Total Current Assets	121,998	118,686
Accounts receivable – long term	1,003	1,872
Deferred income tax asset - net	10,911	12,843
Property and equipment – net	22,775	22,282
Right-of-use Asset – operating lease	33,581	34,232
Right-of-use Asset – financing lease	779	928
Goodwill	4,269	4,269
Other intangible assets – net	3,494	3,704
Other assets	526	526
Total Assets	$ 199,336	$ 199,342

*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

	March 31, 2023	June 30, 2022 *
Current Liabilities:		
Current portion of long-term debt	$ 43	$ 40
Accounts payable	1,719	1,552
Other current liabilities	3,496	6,417
Unearned revenue on service contracts	3,615	4,289
Unearned revenue on service contracts – related party	28	—
Operating lease liability - current portion	3,981	3,880
Financing lease liability - current portion	217	210
Customer deposits	826	361
Total Current Liabilities	13,925	16,749
Long-Term Liabilities:		
Unearned revenue on service contracts	1,015	1,857
Deferred income tax liability	216	216
Due to related medical practices	93	93
Operating lease liability – net of current portion	32,630	33,091
Financing lease liability – net of current portion	657	838
Long-term debt less current portion	126	155
Other liabilities	57	107
Total Long-Term Liabilities	34,794	36,357
Total Liabilities	48,719	53,106

*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:	March 31, 2023	June 30, 2022*
Class A non-voting preferred stock $.0001 par value; 453 shares authorized at March 31, 2023 and June 30, 2022, 313 issued and outstanding at March 31, 2023 and June 30, 2022	$ —	$ —
Preferred stock $.001 par value; 567 shares authorized at March 31, 2023 and June 30, 2022, issued and outstanding – none	—	—
Common Stock $.0001 par value; 8,500 shares authorized at March 31, 2023 and June 30, 2022, 6,607 and 6,566 issued at March 31, 2023 and June 30, 2022, respectively 6,538 and 6,554 outstanding at March 31, 2023 and June 30, 2022, respectively	1	1
Class B Common Stock (10 votes per share) $.0001 par value; 227 shares authorized at March 31, 2023 and June 30, 2022,146 issued and outstanding at March 31, 2023 and June 30, 2022	—	—
Class C Common Stock (25 votes per share) $.0001 par value; 567 shares authorized at March 31, 2023 and June 30, 2022, 383 issued and outstanding at March 31, 2023 and June 30, 2022	—	—
Paid-in capital in excess of par value	184,130	184,531
Accumulated deficit	(25,428)	(33,567)
Treasury stock, at cost - 69 shares of common stock at March 31, 2023 and 12 shares of common stock at June 30, 2022	(1,522)	(675)
Total Fonar Corporation's Stockholders' Equity	157,181	150,290
Noncontrolling interests	(6,564)	(4,054)
Total Stockholders' Equity	150,617	146,236
Total Liabilities and Stockholders' Equity	$ 199,336	$ 199,342

*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 MARCH 31, 2023	2022
REVENUES		
Patient fee revenue – net of contractual allowances and discounts	$ 8,188	$ 7,641
Product sales – net	25	135
Service and repair fees – net	1,831	1,876
Service and repair fees - related parties – net	28	28
Management and other fees – net	12,375	11,904
Management and other fees - related medical practices – net	2,975	2,987
Total Revenues – Net	25,422	24,571
COSTS AND EXPENSES		
Costs related to patient fee revenue	4,056	3,306
Costs related to product sales	196	53
Costs related to service and repair fees	801	747
Costs related to service and repair fees - related parties	12	11
Costs related to management and other fees	7,157	6,696
Costs related to management and other fees – related medical practices	1,455	1,698
Research and development	435	354
Selling, general and administrative	7,143	6,068
Total Costs and Expenses	21,255	18,933
Income From Operations	4,167	5,638
Other Expense	(6)	—
Interest (Expense) Income	(15)	31
Investment Income	356	58
Income Before Provision for Income Taxes and Noncontrolling Interests	4,502	5,727
Provision for Income Taxes	(17)	(2,465)
Net Income	4,485	3,262
Net Income - Noncontrolling Interests	(625)	(971)
Net Income – Attributable to FONAR	$ 3,860	$ 2,291
Net Income Available to Common Stockholders	$ 3,627	$ 2,153
Net Income Available to Class A Non-Voting Preferred Stockholders	$ 174	$ 103
Net Income Available to Class C Common Stockholders	$ 59	$ 35
Basic Net Income Per Common Share Available to Common Stockholders	$ 0.56	$ 0.33
Diluted Net Income Per Common Share Available to Common Stockholders	$ 0.55	$ 0.32
Basic and Diluted Income Per Share – Class C Common	$ 0.16	$ 0.09
Weighted Average Basic Shares Outstanding – Common Stockholders	6,481	6,554
Weighted Average Diluted Shares Outstanding - Common Stockholders	6,609	6,682
Weighted Average Basic and 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 NINE MONTHS ENDED MARCH 31,	
REVENUES	2023	2022
Patient fee revenue – net of contractual allowances and discounts	$ 21,393	$ 21,935
Product sales – net	225	481
Service and repair fees – net	5,489	5,720
Service and repair fees - related parties – net	83	83
Management and other fees – net	36,717	35,985
Management and other fees - related medical practices – net	8,962	8,576
Total Revenues – Net	72,869	72,780
COSTS AND EXPENSES		
Costs related to patient fee revenue	11,879	9,785
Costs related to product sales	580	352
Costs related to service and repair fees	2,241	2,190
Costs related to service and repair fees - related parties	34	32
Costs related to management and other fees	20,281	20,497
Costs related to management and other fees – related medical practices	4,345	5,024
Research and development	1,126	1,109
Selling, general and administrative	20,074	15,928
Total Costs and Expenses	60,560	54,917
Income From Operations	12,309	17,863
Other (Expense) Income	(203)	858
Interest Expense	(41)	(9)
Investment Income	770	180
Income Before Provision for Income Taxes and Noncontrolling Interests	12,835	18,892
Provision for Income Taxes	(2,889)	(5,311)
Net Income	9,946	13,581
Net Income - Noncontrolling Interests	(1,807)	(3,383)
Net Income – Attributable to FONAR	$ 8,139	$ 10,198
Net Income Available to Common Stockholders	$ 7,647	$ 9,583
Net Income Available to Class A Non-Voting Preferred Stockholders	$ 367	$ 458
Net Income Available to Class C Common Stockholders	$ 125	$ 157
Basic Net Income Per Common Share Available to Common Stockholders	$ 1.18	$ 1.46
Diluted Net Income Per Common Share Available to Common Stockholders	$ 1.16	$ 1.43
Basic and Diluted Income Per Share – Class C Common	$ 0.33	$ 0.41
Weighted Average Basic Shares Outstanding – Common Stockholders	6,487	6,554
Weighted Average Diluted Shares Outstanding - Common Stockholders	6,615	6,682
Weighted Average Basic and Diluted Shares Outstanding – Class C Common	383	383

See accompanying notes to condensed consolidated financial statements.

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

For the Three Months Ending March 31, 2023

	Common Stock	Paid in capital in excess of par value	Accumulated Deficit	Treasury Stock	Non Controlling Interests	Total
Balance – December 31, 2022	$ 1	$184,130	($ 29,288)	($ 751)	($ 6,022)	$148,070
Net income	—	—	3,860	—	—	3,860
Purchase of Treasury stock	—	—	—	(771)	—	(771)
Distributions - Non controlling	—	—	—	—	(1,167)	(1,167)
Income - Non controlling interests	—	—	—	—	625	625
Balance – March 31, 2023	$ 1	$184,130	($ 25,428)	($ 1,522)	($ 6,564)	$150,617

For the Three Months Ending March 31, 2022

	Common Stock	Paid in capital in excess of par value	Accumulated Deficit	Treasury Stock	Non Controlling Interests	Total
Balance – December 31, 2021	$ 1	$184,531	($ 38,101)	($ 675)	($ 3,314)	$142,442
Net income	—	—	2,291	—	—	2,291
Distributions - Non controlling	—	—	—	—	(1,430)	(1,430)
Income - Non controlling interests	—	—	—	—	971	971
Balance - March 31, 2022	$ 1	$184,531	($ 35,810)	($ 675)	($ 3,773)	$144,274

See accompanying notes to condensed consolidated financial statements.

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

For the Nine Months Ending March 31, 2023

	Common Stock	Paid in capital in excess of par value	Accumulated Deficit	Treasury Stock	Non Controlling Interests	Total
Balance - June 30, 2022	$ 1	$184,531	($ 33,567)	($ 675)	($ 4,054)	$146,236
Net income	—	—	8,139	—	—	8,139
Purchase of Treasury stock	—	—	—	(1,249)	—	(1,249)
Cancellation of shares	—	(401)	—	402	—	1
Distributions - Non controlling	—	—	—	—	(4,317)	(4,317)
Income - Non controlling interests	—	—	—	—	1,807	1,807
Balance - March 31, 2023	$ 1	$184,130	($ 25,428)	($ 1,522)	($ 6,564)	$150,617

For the Nine Months Ending March 31, 2022

	Common Stock	Paid in capital in excess of par value	Accumulated Deficit	Treasury Stock	Non Controlling Interests	Total
Balance - June 30, 2021	$ 1	$185,101	($ 46,008)	($ 675)	($ 3,049)	$135,370
Net income	—	—	10,198		—	10,198
Purchase of Non controlling interests	—	(570)	—	—	24	(546)
Distributions - Non controlling	—	—	—	—	(4,131)	(4,131)
Income - Non controlling interests	—	—	—	—	3,383	3,383
Balance - March 31, 2022	$ 1	$184,531	($ 35,810)	($ 675)	($ 3,773)	$144,274

See accompanying notes to condensed consolidated financial statements.

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

	FOR THE NINE MONTHS ENDED MARCH 31, 2023	2022
Cash Flows from Operating Activities:		
Net income	$ 9,946	$ 13,581
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,357	3,543
Amortization on right-of-use assets	3,306	2,953
Provision for bad debts	4,441	2,150
Deferred income tax – net	1,931	3,484
Gain on forgiveness of PPP loan	—	(701)
(Increase) decrease in operating assets, net:		
Accounts, medical and management fee receivable(s)	(5,604)	(4,950)
Notes receivable	11	32
Contract assets	—	(15)
Inventories	(301)	(705)
Prepaid expenses and other current assets	(73)	112
Other assets	—	132
Increase (decrease) in operating liabilities, net:		
Accounts payable	168	(855)
Other current liabilities	(4,409)	(5,480)
Operating lease liabilities	(2,865)	(2,579)
Financing lease liabilities	(175)	(151)
Customer deposits	465	(370)
Contract liabilities	—	(15)
Other liabilities	(49)	(49)
Net cash provided by operating activities	10,149	10,117
Cash Flows from Investing Activities:		
Purchases of property and equipment	(3,553)	(3,807)
Purchase of noncontrolling interests	—	(546)
Cost of patents	(87)	(60)
Net cash used in investing activities	(3,640)	(4,413)
Cash Flows from Financing Activities:		
Repayment of borrowings and capital lease obligations	(26)	(23)
Purchase of treasury stock	(1,249)	—
Distributions to noncontrolling interests	(4,317)	(4,131)
Net cash used in financing activities	(5,592)	(4,154)
Net Increase in Cash and Cash Equivalents	917	1,550
Cash and Cash Equivalents - Beginning of Period	48,723	44,460
Cash and Cash Equivalents - End of Period	$ 49,640	$ 46,010

See accompanying notes to condensed consolidated financial statements.

NOTE 1 – DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Description of Business

FONAR Corporation (the "Company" or "FONAR") is a Delaware corporation, which was incorporated on July 17, 1978. FONAR is engaged in the research, development, production and manufacturing of medical scanning equipment, which uses principles of Magnetic Resonance Imaging ("MRI") for the detection and diagnosis of human diseases. In addition to deriving revenues from the direct sale of MRI equipment, revenue is also generated from our installed-base of customers through service and upgrade programs.

FONAR, through its wholly-owned subsidiary Health Management Corporation of America ("HMCA") provides comprehensive management services to diagnostic imaging facilities. These services provided by the Company include development, administration, leasing of office spaces, facilities and medical equipment, provision of supplies, staffing and supervision of non-medical personnel, legal services, accounting, billing and collections and the development and implementation of practice growth and marketing strategies.

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. During the fiscal year ended June 30, 2022, the Company purchased non-controlling interests from the minority shareholders for $546,000. Currently the Company has a direct ownership interest of 70.8% and the investors' have a 29.2% ownership interest. 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 and nine months ended March 31, 2023, are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2023. 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 September 28, 2022 for the fiscal year ended June 30, 2022.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The global pandemic of COVID-19 has caused turbulence and uncertainty in the United States and international markets and economies which has adversely affected our workforce, liquidity, financial conditions, revenues, profitability and business operations. The Company was able to enact certain decisions to allow the Company to sustain operations during the global pandemic and from further losses or additional decreases in scan volume. The Company also received some government stimulus funds from the Paycheck Protection Program ("PPP") and Medicare advances/stimulus payments. The Company has been able to navigate through these challenges and avoid any significant disruption of the business and the volume has recently risen back to almost pre- COVID-19 levels. Recent legislation was passed to end the national emergency for COVID-19 which the Company believes with positive cash flows, low debt and cash on hand, it will be able to maintain operations to pre COVID-19 levels going forward.

Principles of Consolidation

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

Revenues

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 judgements employed in the determination of revenue.

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.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Earnings Per Share

Basic earnings per share (“EPS”) is computed by dividing net income available to common stockholders by the weighted average number of shares of common stock outstanding during the period. In accordance with ASC Topic 260-10, “Participating Securities and the Two-Class method”, the Company uses 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 nine months ended March 31, 2023 and 2022.

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 nine months ended March 31, 2023 and 2022, diluted EPS for common shareholders includes 128 shares upon conversion of Class C Common.

Earnings Per Share

	Three months ended March 31, 2023			Three months ended March 31, 2022		
	Total	Common Stock	Class C Common Stock	Total	Common Stock	Class C Common Stock
Basic						
Numerator:						
Net income available to common stockholders	$3,860	$ 3,627	$ 59	$2,291	$ 2,153	$ 35
Denominator:						
Weighted average shares outstanding	6,481	6,481	383	6,554	6,554	383
Basic income per common share	$ 0.60	$ 0.56	$ 0.16	$ 0.35	$ 0.33	$ 0.09
Diluted						
Denominator:						
Weighted average shares outstanding		6,481	383		6,554	383
Convertible Class C Stock		128	—		128	—
Total Denominator for diluted earnings per share		6,609	383		6,682	383
Diluted income per common share		$ 0.55	$ 0.16		$ 0.32	$ 0.09

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Earnings Per Share (Continued)

	Nine months ended March 31, 2023			Nine months ended March 31, 2022		
	Total	Common Stock	Class C Common Stock	Total	Common Stock	Class C Common Stock
Basic						
Numerator:						
Net income available to common stockholders	$8,139	$ 7,647	$ 125	$10,198	$ 9,583	$ 157
Denominator:						
Weighted average shares outstanding	6,487	6,487	383	6,554	6,554	383
Basic income per common share	$ 1.25	$ 1.18	$ 0.33	$ 1.56	$ 1.46	$ 0.41
Diluted						
Denominator:						
Weighted average shares outstanding		6,487	383		6,554	383
Convertible Class C Stock		128	—		128	—
Total Denominator for diluted earnings per share		6,615	383		6,682	383
Diluted income per common share		$ 1.16	$ 0.33		$ 1.43	$ 0.41

Recent Accounting Standards

FASB, the Emerging Issues Task Force and the SEC have issued certain other accounting standards, updates, and regulations as of March 31, 2023 that will become effective in subsequent periods; however, management does not believe that any of those updates would have significantly affected the Company's financial accounting measures or disclosures had they been in effect during 2023 or 2022, and it does not believe that any of those standards will have a significant impact on our consolidated condensed financial statements at the time they become effective.

(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 March 31, 2023, and June 30, 2022:

	March 31, 2023		
	Gross Receivable	Allowance for doubtful accounts	Net
Accounts receivable	$ 3,925	$ 205	$ 3,720
Accounts receivable - related party	$ 30	—	$ 30
Medical receivable	$ 20,460	$ —	$ 20,460
Management and other fees receivable	$ 55,043	$ 19,842	$ 35,201
Management and other fees receivable from related medical practices ("PC's")	$ 15,002	$ 5,914	$ 9,088

	June 30, 2022		
	Gross Receivable	Allowance for doubtful accounts	Net
Accounts receivable	$ 4,541	$ 205	$ 4,336
Medical receivable	$ 20,109	$ —	$ 20,109
Management and other fees receivable	$ 50,047	$ 16,628	$ 33,419
Management and other fees receivable from related medical practices ("PC's")	$ 13,290	$ 4,687	$ 8,603

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 will generate revenue from long-term, non-cancellable contracts to provide service and repair services. Future revenue to be recognized over the following three years as of March 31, 2023 is as follows:

2025	$	792
2026		216
2027		7
Total	$	1,015

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 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 67.6% and 66.6% of the PCs' net revenues for the three months ended March 31, 2023 and 2022 respectively, were derived from no-fault and personal injury protection claims. Approximately 67.9% and 66.6% of the PCs' net revenue for the nine months ended March 31, 2023 and 2022, 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 11.7% and 12.2% of the consolidated net revenues for the three months ended March 31, 2023 and 2022, respectively. Net revenues from management and other fees charged to the related PCs accounted for approximately 12.3% and 11.8% of the consolidated net revenues for the nine months ended March 31, 2023 and 2022, 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 nine months ended March 31, 2023 and 2022 are summarized in the following table.

	For the Three Months Ended March 31,	
	2023	2022
Commercial Insurance/ Managed Care	$ 1,037	$ 1,095
Medicare/Medicaid	303	287
Workers' Compensation/Personal Injury	5,186	4,624
Other	1,662	1,635
Patient Fee Revenue, net of contractual allowances and discounts	$ 8,188	$ 7,641

	For the Nine Months Ended March 31,	
	2023	2022
Commercial Insurance/ Managed Care	$ 2,905	$ 3,249
Medicare/Medicaid	788	809
Workers' Compensation/Personal Injury	13,683	13,092
Other	4,017	4,785
Patient Fee Revenue, net of contractual allowances and discounts	$ 21,393	$ 21,935

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

NOTE 4 – OPERATING & FINANCING LEASES

In July 2019, the Company adopted ASU 2016-02, Leases (Topic 842). This 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. We have elected the optional transition method to apply the standard as of the effective date and therefore, we will not apply the standard to the comparative periods presented in the condensed consolidated financial statements. We have also elected the transition package of the practical expedients permitted within the standard which eliminates the requirements to reassess prior conclusions about lease identification, lease classification and indirect costs.

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. Our most common initial term varies in length from 2 to 10 years. Including renewal options negotiated with the landlord, we have a total span of 2 to 16 years at the facilities we 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. Our incremental borrowing rate ("IBR") used to discount the stream of operating lease payments is closely related to the interest rates available to the Company.

A reconciliation of operating and financing lease payments undiscounted cash flows to lease liabilities recognized as of March 31, 2023 is as follows:

Twelve Months Ending March 31,	Operating Lease Payments	Financing Lease Payments
2024	$ 5,613	$ 244
2025	5,661	244
2026	5,304	244
2027	4,520	204
2028	3,642	—
Thereafter	21,835	—
Present value discount	(9,964)	(62)
Total lease liability	$ 36,611	$ 874

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

NOTE 5 - INVENTORIES

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

	March 31, 2023	June 30, 2022
Purchased parts, components and supplies	$ 2,456	$ 2,126
Work-in-process	205	234
Total Inventories	$ 2,661	$ 2,360

NOTE 6 – OTHER INTANGIBLE ASSETS

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

	March 31, 2023	June 30, 2022
Capitalized software development costs	$ 7,005	$ 7,005
Patents and copyrights	5,420	5,333
Non-compete	4,150	4,150
Customer relationships	3,900	3,900
Gross Other intangible assets	20,475	20,388
Less: Accumulated amortization	16,981	16,684
Other Intangible Assets - net	$ 3,494	$ 3,704

Amortization of patents and copyrights for the three months ended March 31, 2023 and 2022 amounted to $46 and $44, respectively.

Amortization of non-compete for the three months ended March 31, 2023 and 2022 amounted to $0 and $13, respectively.

Amortization of customer relationships for the three months ended March 31, 2023 and 2022 amounted to $50 and $50, respectively.

Amortization of patents and copyrights for the nine months ended March 31, 2023 and 2022 amounted to $147 and $140, respectively.

Amortization of non-compete for the nine months ended March 31, 2023and 2022 amounted to $0 and $38, respectively.

Amortization of customer relationships for the nine months ended March 31, 2023 and 2022 amounted to $150 and $150, respectively.

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

NOTE 7 – OTHER CURRENT LIABILITIES

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

	March 31, 2023	June 30, 2022
Accrued salaries, commissions and payroll taxes	$ 2,046	$ 4,653
Sales tax payable	210	249
State income taxes payable	200	382
Legal and other professional fees	11	21
Accounting fees	89	120
Self-funded health insurance reserve	35	79
Accrued interest and penalty	3	59
Other general and administrative expenses	902	854
Other Current Liabilities	$ 3,496	$ 6,417

NOTE 8 - 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, 2022. All inter-segment sales are market-based. The Company evaluates performance based on income or loss from operations.

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

NOTE 8 - SEGMENT AND RELATED INFORMATION (CONTINUED)

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 March, 31, 2023			
Net revenues from external customers	$ 1,884	$ 23,538	$ 25,422
Inter-segment net revenues	$ 245	$ —	$ 245
(Loss) Income from operations	$ (1,141)	$ 5,308	$ 4,167
Depreciation and amortization	$ 64	$ 1,075	$ 1,139
Capital expenditures	$ 13	$ 2,191	$ 2,204
For the three months ended March 31, 2022			
Net revenues from external customers	$ 2,039	$ 22,532	$ 24,571
Inter-segment net revenues	$ 245	$ —	$ 245
(Loss) Income from operations	$ (537)	$ 6,175	$ 5,638
Depreciation and amortization	$ 64	$ 1,121	$ 1,185
Capital expenditures	$ 43	$ 1,620	$ 1,663

	Medical Equipment	Management of Diagnostic Imaging Centers	Totals
For the nine months ended March 31, 2023			
Net revenues from external customers	$ 5,797	$ 67,072	$ 72,869
Inter-segment net revenues	$ 735	$ —	$ 735
(Loss) Income from operations	$ (2,495)	$ 14,804	$ 12,309
Depreciation and amortization	$ 201	$ 3,156	$ 3,357
Capital expenditures	$ 87	$ 3,553	$ 3,640
For the nine months ended March 31, 2022			
Net revenues from external customers	$ 6,284	$ 66,496	$ 72,780
Inter-segment net revenues	$ 720	$ —	$ 720
(Loss) Income from operations	$ (1,054)	$ 18,917	$ 17,863
Depreciation and amortization	$ 199	$ 3,344	$ 3,543
Capital expenditures	$ 230	$ 3,577	$ 3,807

NOTE 9 – SUPPLEMENTAL CASH FLOW INFORMATION

During the nine months ended March 31, 2023 and March 31, 2022, the Company paid $42 and $279 for interest, respectively.

During the nine months ended March 31, 2023 and March 31, 2022, the Company paid $1,140 and $1,105 for income taxes, respectively.

NOTE 10 – 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, 2022.

Other Matters

On September 13, 2022, the Company adopted a stock repurchase plan. The plan has no expiration date and cannot determine the number of shares which will be repurchased. On September 26, 2022, the Board of Directors has approved up to $9 million to be repurchased under the plan which will be purchased on the publicly traded open market at prevailing prices. During the nine months ended March 31, 2023, the Company repurchased 70 shares at a cost of $1,249.

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 $150 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 March 31, 2023 and June 30, 2022, the Company had approximately $35 and $79, 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 11 - 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 nine months ended March 31, 2023 and 2022, the Company recorded income tax expense of $2,889 in 2023 as compared to $5,311 in 2022. The 2023 provision is comprised of a current income tax component of $958 and a deferred income tax component of $1,931. 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 2019. The Company recorded a deferred tax asset of $10,911 and a deferred tax liability of $216 as of March 31, 2023, primarily relating to net operating loss carryforwards of approximately $5,191 available to offset future taxable income through 2032. 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 March 31, 2023, no such changes in ownership have occurred.

NOTE 11 - INCOME TAXES (CONTINUED)

The Inflation Reduction Act ("IRA") was enacted on August 16, 2022. The IRA includes provisions imposing a 1% excise tax on share repurchases that occur after December 31, 2022 and introduces a 15% corporate alternative minimum tax ("CAMT") on adjusted financial statement income. The CAMT will be effective for tax years beginning after December 31, 2022. Currently, the Company does not expect the IRA to have a material impact to the Company's financial statements.

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, which 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 12 – SUBSEQUENT EVENTS

The Company has evaluated events that occurred subsequent to March 31, 2023 and through the date the condensed consolidated financial statements were issued.

During April 2023, the Company repurchased 6 shares at a cost of $101 which was authorized under the stock repurchase plan adopted in September 2022.

During April 2023, the Company amended the revolving credit agreement. The agreement was extended to July 7, 2023. The interest rate on borrowings is at the current prime rate of 8.00% along with certain financial covenants.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed financial statements and notes thereto included in Part I, Item 1 of this Quarterly Report on Form 10-Q and with our audited consolidated financial statements and notes thereto for the year ended June 30, 2022 included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2022 filed with the U.S. Securities and Exchange Commission (SEC) on September 28, 2022.

For the nine month period ended March 31, 2023, we reported a net income of $9.9 million on revenues of $72.9 million as compared to net income of $13.6 million on revenues of $72.8 million for the nine month period ended March 31, 2022. Operating income decreased from $17.9 million for the nine month period ended March 31, 2022 to $12.3 million for the nine month period ended March 31, 2023.

For the three month period ended March 31, 2023, we reported a net income of $3.9 million on revenues of $25.4 million as compared to net income of $3.3 million on revenues of $24.6 million for the three month period ended March 31, 2022.

While our revenues increased slightly, our costs and expenses increased, but by a greater amount resulting in our operating income decreasing to $12.3 million for the nine months ended March 31, 2023 as compared to $17.9 million for the nine months ended March 31, 2022. In terms of percentages, costs and expenses increased 10.2% from $54.9 million for the first nine months of fiscal 2022 to $60.6 million for the first nine months of fiscal 2023, while revenues increased 0.1%, from $72.8 million for the first nine months of fiscal 2022 to $72.9 million for the first nine months of fiscal 2023.

Fonar's wholly owned subsidiary, Health Management Corporation of America ("HMCA"), has the controlling interest in Health Diagnostics Management, LLC ("HDM"). HMCA presently has a direct ownership interest of 70.8% in HDM, and the investors in HDM have a 29.2% ownership interest, as compared to HMCA's 70% ownership interest and the investors' 30% ownership interest in HDM in fiscal 2021. This change resulted from the Company's purchase of non-controlling interests from the minority shareholders for $546,000 in the second quarter of fiscal 2022. The 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.

The most significant adverse impact on our Company in fiscal 2022 and fiscal 2023 has been the continuing effects of the COVID-19 pandemic. During April 2023 legislation was passed to end the national emergency for COVID-19 and it seems the worst has passed. This is by no means a problem confined to our Company, but despite our best efforts and improved ability to cope with the pandemic and the availability of new vaccines, the impact on our results of operation and financial condition is potentially volatile and severe.

The global pandemic of COVID-19 has caused disruptions in the United States and international markets which have adversely affected our workforce, financial condition, profitability and business operations. The Company was able to enact certain decisions to allow the Company to survive during the global pandemic and prevent further losses or additional decreases in scan volume. Although we are unable to predict if there will be additional consequences on our operations from the continuing global pandemic of COVID-19 and its variants, the Company believes with the ending of the national emergency and with its strong cash position and general financial condition, it will be able to continue operations going forward.

One of the concerns we have had is the increased strictness in enforcement of certain COVID-19 mandates, which directly impacts the conduct of our business, such as the requirement that employees in healthcare facilities be vaccinated. Another concern we have is the newer variants that are more transmissible. We are in fact facing some of these challenges now. As a result, between absences due to illness and the loss of unvaccinated employees whose duties required them to be in contact with patients, we were sometimes unable to keep a scanning facility open for all shifts. The New York State Supreme Court recently invalidated the requirement that all medical employees must be vaccinated. This decision is currently under appeal and we are unsure of the outcome. Also at the end of the first quarter of fiscal 2023, our Florida locations were effected by Hurricane Ian and had to be shut down for several days. During the first nine months of fiscal 2023, the aggregate number of scans performed by the sites we manage or own declined slightly to 139,339 scans from 140,650 scans in the first nine months of fiscal 2022. Nevertheless, we have been able to navigate through these challenges and avoid any significant disruption to our business

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 $225,000 for the first nine months of fiscal 2023 from $481,000 for the first nine months of fiscal 2022. Costs related to product sales increased from $352,000 for the nine month period ended March 31, 2022 to $580,000 for the nine month period ended March 31, 2023. 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). Due to the low sales volumes of our MRI product, period to period comparisons are not necessarily indicative of any trends.

Service revenues decreased to $5.6 million for the nine month period ended March 31, 2023 as compared to $5.8 million for the nine month period ended March 31, 2022.

Costs relating to providing service increased slightly to $2.3 million for the nine month period ended March 31, 2023 as compared to $2.2 million for the nine month period ended March 31, 2022. 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 develop, we have been able to contain our costs of providing service.

There were approximately $375,000 in foreign revenues for the first nine months of fiscal 2023 as compared to approximately $466,000 in foreign revenues for the first nine months of fiscal 2022, representing a decrease in foreign revenues of 19.5%. 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 site preparation and our installation of the scanner, 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 $5.8 million for the first nine months of fiscal 2023 from $6.3 million for the first nine months of fiscal 2022. Operating losses for our medical equipment segment increased to an operating loss of $2.5 million, for the first nine months of fiscal 2023 as compared to an operating loss of $1.1 million for the first nine months of fiscal 2022.

Diagnostic Facilities Management Services

HMCA revenues increased in the first nine months of fiscal 2023 by 0.8% to $67.1 million from $66.5 million for the first nine months of fiscal 2022. 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 92.0% for the first nine months of fiscal 2023, from 91.3% for the first nine months of fiscal 2022.

HMCA's current strategy is to counter 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 the COVID-19 virus, however, the Company had seen decreases in its scan volume. Nevertheless, the Company continued its program of adding additional scanners. The scan volume decreased slightly in the first nine months of 2023. Other factors that have led to the slight decrease can also be attributable to Hurricane Ian which caused the Florida locations to be closed for several days. The continuation of the COVID-19 virus and its various variants that are more transmittable may delay the completion of the installation of some of the scanners. If scan volumes decrease however, and remain at lower volumes, the Company, notwithstanding its ample cash reserves, may need to consider reducing the size of its operations temporarily as a last resort.

New York State mandated that as of October 7, 2021, all workers at hospitals, long-term care facilities and diagnostic centers be COVID-19-vaccinated. Workers who were not vaccinated either resigned, were transferred to a non-diagnostic facility within the company, or were dismissed. The resulting reduction in the number of workers available at sites owned or managed by HMCA, had been challenging and had significantly reduced the pool of qualified and vaccinated workers. Also this is combined with the emergence of the new highly transmissible variants. HMCA owned or managed sites struggling with reduced staff either had cut their business hours and therefore scanned fewer patients or, when possible, maintained regular business hours by paying employees who are willing to work extra hours at overtime rates. The NYS Supreme Court recently invalidated the requirement that all medical employees must be vaccinated. This decision is currently under appeal and we are unsure of the outcome.

Although the number of scans performed at our centers and at our client's centers has recovered to pre-COVID-19 levels, it has decreased from approximately 140,600 in the first nine months of fiscal 2022 to approximately 139,300 in the first nine months of fiscal 2023. The decrease in scans was due to a shortage of MRI technologists who operate the scanners, which is an industry-wide issue that caused our centers to be open for fewer hours. We believe that the worst part of this shortage has passed and we just recently came back to full employment.

We now manage or own a total of 41 MRI scanners. Twenty-four (24) MRI scanners are located in New York and seventeen (17) are located in Florida. HMCA experienced an operating income of $14.8 million for the first nine months of fiscal 2023 compared to operating income of $18.9 million for the first nine months of fiscal 2022.

The ability of HMCA to maintain its profitability 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 and the lockdowns imposed as a result of the COVID-19 virus. The reductions in reimbursement rates are not unique to HMCA or HMCA's clients but are being experienced by the industry in general.

HMCA's cost of revenues for the first nine months of fiscal 2023 as compared to the first nine months of fiscal 2022 increased by 3.3% from $35.3 million to $36.5 million.

Consolidated

For the first nine months of fiscal 2023, our consolidated net revenues increased by 0.1% to $72.9 million from $72.8 million for the first nine months of fiscal 2022, and total costs and expenses increased by 10.2% to $60.6 million from $54.9 million for the first nine months of fiscal 2023 and for the first nine months of fiscal 2022 respectively. As a result, our operating income decreased to $12.3 million in the first nine months of fiscal 2023 as compared to $17.9 million in the first nine months of fiscal 2022. An increase in selling, general and other administrative costs in particular resulted in the increase of cost and expenses as compared to the increase in net revenues.

Selling, general and administrative expenses increased to $20.1 million in the first nine months of fiscal 2023 from $15.9 million in the first nine months of fiscal 2022. This increase in selling, general and administrative expenses was due mainly to more reserves taken on management fees. Some of these reserves had been taken in the ordinary course of business and some in connection with the impact of the COVID-19 virus.

Research and development expenses remained constant at $1.1 million for the first nine months of fiscal 2023 and the first nine months of fiscal 2022.

Interest expense in the first nine months of fiscal 2023 increased by 355% to $41,000 from $9,000 in the first nine months of fiscal 2022.

Inventories increased to $2.7 million at March 31, 2023 as compared to $2.4 million at June 30, 2022.

Net management fee and medical receivables increased by 4.2% to $64.7 million at March 31, 2023 from $62.1 million at June 30, 2022 as a result of slower collections and increased scan volume due to the opening of a new location in Florida. 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 nine months of fiscal 2023 reflect an increase in revenues from management, patient and other fees, as compared to the first nine months of fiscal 2022 ($67.1 million for the first nine months of fiscal 2023 as compared to $66.5 million for the first nine months of fiscal 2022), and a decrease in the MRI equipment segment revenues ($5.8 million for the first nine months of fiscal 2023 as compared to $6.3 million for the first nine months of fiscal 2022). Revenues were 8.0% from the MRI segment and 92.0% from HMCA, for the first nine months of fiscal 2023, as compared to 8.7% from the MRI equipment segment and 91.3% from HMCA for the first nine months of fiscal 2022.

As a result of the Patient Protection and Affordable Care Act (PPACA) we have experienced a reduction of reimbursement rates and less interest in our MRI equipment. Any changes to the PPACA may result in further 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 COVID-19 virus, 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 patient volume of the scanning centers we manage or own has enabled us to maintain healthy operating results in spite of these challenges. We believe we are pursuing the correct policies to cope with these problems and the problems caused by the COVID-19 pandemic, and to improve the Company’s operating results.

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 not have been addressable 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.

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In addition, FONAR had 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 had 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 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, and short term investments increased by 1.8% from $48.7 million at June 30, 2022 to $49.7 million at March 31, 2023.

Cash provided by operating activities for the first nine months of fiscal 2023 was $10.1 million. Cash provided by operating activities was attributable principally to net income of $9.9 million, depreciation and amortization of $3.4 million, amortization on right-to-use assets of $3.3 million, provision for bad debts of $4.4 million and deferred income tax of $1.9 million, offset by an increase in accounts, management fee receivables and medical receivables of $5.6 million and a decrease in other current liabilities of $4.4 million.

Cash used in investing activities for the first nine months of fiscal 2023 was $3.6 million. Cash used in investing activities during the first nine months of fiscal 2023 consisted of patent costs of $87,000 and the purchase of property and equipment of $3.6 million.

Cash used in financing activities for the first nine months of fiscal 2023 was $5.6 million. The principal uses of cash in financing activities during the first nine months of fiscal 2022 were the repayment of principal on long-term debt and capital lease obligations of $26,000, the purchase of treasury stock of $1.2 million and distributions to non-controlling interests of $4.3 million.

Total liabilities decreased by 8.2% to $48.7 million at March 31, 2023 from $53.1 million at June 30, 2022. "Other" current liabilities decreased by 45.5% to $3.5 million at March 31, 2023 from $6.4 million at June 30, 2022. The current portion of our service contract liabilities decreased by 15.0% to $3.6 million at March 31, 2023 as compared to $4.3 million at June 30, 2022. Customer deposits increased from $361,000 at June 30, 2022 to $826,000 at March 31, 2023.

As of March 31, 2023, the total of $3.5 million in “other” current liabilities included accrued salaries and payroll taxes of $2.0 million, state income taxes payable of $200,000 and other general and administrative expenses of $900,000.

Our working capital increased to $108.1 million at March 31, 2023 from $101.9 million at June 30, 2022. This resulted from an increase in current assets ($118.7 million at June 30, 2022 as compared to $122.0 million at March 31, 2023), and a decrease in current liabilities from $16.7 million at June 30, 2022 to $13.9 million at March 31, 2023.

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.

On August 16, 2020 Congress enacted the Inflation Reduction Act (“IRA”). The IRA includes provisions imposing a 1% excise tax on share repurchases that occur after December 31, 2022 and introduces a 15% corporate alternative minimum tax (“CAMT”) on adjusted financial statement income. The CAMT will be effective for tax years beginning after December 31, 2022. Currently, the Company does not expect the IRA to have a material impact to the Company’s financial statements.

Fonar is committed to making capital expenditures for the remainder of the 2023 fiscal year, for placing a scanner at a new stand-alone facility located in New York which is scheduled to open in May. The current estimated costs of these capital expenditures is approximately $150,000.

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, the uncertainty resulting from the Patient Protection and Affordable Care Act or its repeal or modification, and the impact of the COVID-19 virus on the economy in general, the sale of medical equipment has and may continue to suffer.

The Company believes that its business plan has been responsible for the past nine consecutive fiscal years and first nine months of fiscal 2023 of profitability and that its capital resources will be adequate to support operations through at least May 15, 2024. The future effects on our business of healthcare legislation, the impact of the COVID-19 virus, the Deficit Reduction Act, the 2.3% excise tax on sales of medical equipment, reimbursement rates, public health conditions 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. Although the Company cannot predict the full effect of COVID-19 for the three fiscal or any later period, the Company believes that it has adequate revenues, cash reserves and other assets that will enable it to continue to operate until at least May 15, 2024.

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 have concluded that the Company's disclosure controls and procedures were effective as of the March 31, 2023, in ensuring that material information that we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the same time periods specified in the Securities and Exchange Commission rules and forms.

Changes in Internal Control over Financial Reporting

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, 2022 and Form 10-Q for the fiscal quarter ended December 31, 2022.

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 notwithstanding the COVID-19 pandemic, 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, prospective customers would 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 services we perform. 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 reduce our net revenue 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 in 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 continue to increase the participation of individuals in the Medicaid program in states that elect to participate in the expanded Medicaid coverage. 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. Current and future changes in Florida Insurance Law. On March 24, 2023, Florida Governor Ron DeSantis signed into law House Bill 837. Dubbed the Tort Reform Act, the bill makes sweeping changes to Florida's negligence laws, including reducing the statute of limitations, barring recovery for plaintiffs who are found to be 50% or greater at fault, and changing the rules of evidence regarding admissibility of the costs of prior and future medical treatment. The bill is viewed as a boon to insurance companies, and is largely aimed at reducing the cost of personal injury lawsuits to Insurers operating in Florida's motor vehicle and general liability markets. The full impact of the bill remains to be seen. Certain provisions of the bill are expected to negatively impact our reimbursement percentage and/or reimbursement rates. We expect that some percentage of our patients who are seeking treatment following motor vehicle accidents will not meet the new 51% threshold, and as a result we expect an increase in the percentage of uncollectible billings from those patients. We are unable to estimate what percentage that might be. Further, changes to the evidentiary admissibility rules may lead to a higher percentage of our billings being paid at commercial rates instead of at the presently prevailing PIP schedule, a reduction in reimbursement of approximately 60%. These changes will negatively impact our Florida diagnostic imaging facilities (both those we own and those we manage) with more unpaid bills, and lower reimbursement rates. The extent of those reductions are unclear at this time.

In addition to the above, Florida legislature continues to propose an outright repeal of Florida's No-Fault law. SB 586 and its companion statute H 429, again propose a repeal of Personal Injury Protection and replacing it with $25,000 Bodily Injury Coverage and Property Damage Liability Coverage. Similar legislative efforts occurred in 2019, and 2021. The 2019 proposals failed to pass the Senate, and the 2021 proposals were approved by both houses before ultimately being vetoed by the Governor. We cannot predict whether Florida will continue to pursue the repeal of the No-Fault Law in light of the passage of HB 837, and whether such efforts will 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.

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 Florida diagnostic imaging facilities (both those we own and those we manage) with more unpaid bills, lower reimbursement rates and elongated waiting times.

9. 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 Protected Health Information ('PHI'), including Health Insurance Portability and Accountability Act ('HIPAA') and its implementing privacy and security regulations, as amended by the federal Health Information Technology for Economic and Clinical Health ('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 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.

10. COVID-19. Although we believe we have taken the proper steps and are making a good recovery from the impact of the COVID-19 virus, the long term impact of COVID-19, and the impact of societal efforts to combat the pandemic, reverberate throughout the medical industry. New York State requirements that medical employees must be vaccinated if they care for patients, including our technicians and support staff caring for scanning patients, was invalidated by New York State Supreme Court Judge Gerard J. Neri. That decision is currently pending on Appeal, and New York's Governor continues to enforce it. The uncertainty surrounding the current and future status of the vaccine mandate has resulted in fewer available employees and adversely affected our ability to staff a full number of shifts. The ultimate and economic and medical impact of the virus worldwide and at home, remains uncertain.

11. Other changes in Domestic and Worldwide Economic Conditions. We are subject to risk arising from adverse changes in general domestic and global economic and other conditions, including recessions or economic slowdowns, disruptions of credit markets and military conflicts. Turbulence and uncertainty in the United States and international markets and economies may adversely affect our workforce, 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 February 15, 2023, Item 2.02: Results of Operations and Financial Condition for the fiscal quarter ended December 31, 2022.

FONAR CORPORATION AND SUBSIDIARIES

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
Chairman of the Board of Directors, President, Principal Executive Officer and Treasurer

____
/s/ Luciano Bonanni
Luciano Bonanni
Executive Vice President, Chief Operating Officer, Acting Principal Financial Officer

Dated: May 15, 2023