FONAR CORP
Form 10-Q/A
June 28, 2005

FORM 10-Q/A

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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

For the quarterly period ended DECEMBER 31, 2004

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number 0-10248

FONAR CORPORATION

(Exact name of registrant as specified in its charter)

| DELAWARE | 11-2464137 |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

110 Marcus Drive Melville, New York 11747

(Address of principal executive offices) (Zip Code)

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

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 is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). YES X NO

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 January 31, 2005 |
|---|---|
| Common Stock, par value $.0001 | 102,588,071 |
| Class B Common Stock, par value $.0001 | 3,953 |
| Class C Common Stock, par value $.0001 | 9,562,824 |
| Class A Preferred Stock, par value $.0001 | 7,836,287 |

FONAR CORPORATION AND SUBSIDIARIES
INDEX

Exhibit - 31.1

Exhibit - 32.1

FONAR CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(000's OMITTED)

| ASSETS | December 31, 2004 (UNAUDITED) | June 30, 2004 |
|---|---|---|
| Current Assets: | | |
| Cash and cash equivalents | $ 8,082 | $ 9,474 |
| Marketable securities | 12,125 | 11,120 |
| Restricted cash | 5,500 | 5,500 |
| Accounts receivable - net | 2,631 | 1,006 |
| Accounts receivable - related parties - net | 414 | 297 |
| Management fee receivable - related medical practices - net | 14,464 | 14,315 |
| Costs and estimated earnings in excess of billings on uncompleted contracts | 2,546 | 1,711 |
| Costs and estimated earnings in excess of billings on uncompleted contracts - related party | 1,500 | 112 |
| Inventories | 9,316 | 9,585 |
| Investment in sales-type lease | 163 | 154 |
| Current portion of advances and notes to related medical practices | 200 | 240 |
| Prepaid expenses and other current assets | 2,148 | 1,572 |
| Total Current Assets | 59,089 | 55,086 |
| Property and equipment - net | 7,259 | 8,211 |
| Advances and notes to related medical practices - net | 391 | 481 |
| Investment in sales-type lease | 369 | 452 |
| Management agreements - net | 8,413 | 8,730 |
| Other intangible assets - net | 4,206 | 3,958 |
| Other assets | 289 | 283 |
| Total Assets | $ 80,016 | $ 77,201 |

See accompanying notes to condensed consolidated financial statements (unaudited).

FONAR CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(000's OMITTED)

| LIABILITIES AND STOCKHOLDERS' EQUITY | December 31, 2004 (UNAUDITED) | June 30, 2004 |
|---|---|---|
| Current Liabilities: | | |
| Current portion of long-term debt and capital leases | $ 5,897 | $ 5,983 |
| Accounts payable | 5,603 | 5,369 |
| Other current liabilities | 10,984 | 10,005 |
| Unearned revenue on service contracts - related parties | 471 | 373 |
| Customer advances | 3,003 | 7,800 |
| Customer advances - related party | 42 | - |
| Income taxes payable | 24 | 26 |
| Billings in excess of costs and estimated earnings on uncompleted contracts | 2,691 | 2,937 |
| Billings in excess of costs and estimated earnings on uncompleted contracts - related party | 441 | - |
| Total Current Liabilities | 29,156 | 32,493 |
| Due to related medical practices | 154 | 154 |
| Long-term debt and capital leases, less current maturities | 563 | 720 |
| Other liabilities | 289 | 299 |
| Total Long-Term Liabilities | 1,006 | 1,173 |
| Total Liabilities | 30,162 | 33,666 |
| Minority interest | 446 | 381 |

See accompanying notes to condensed consolidated financial statements (unaudited).

FONAR CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(000's OMITTED, except share data)

| LIABILITIES AND STOCKHOLDERS' EQUITY (continued) | December 31, 2004 (UNAUDITED) | June 30, 2004 |
|---|---|---|
| STOCKHOLDERS' EQUITY | | |
| Class A non-voting preferred stock $.0001 par value; 8,000,000 authorized, 7,836,287 issued and outstanding at December 31, 2004 and June 30, 2004 | 1 | 1 |
| Common Stock $.0001 par value; 110,000,000 shares authorized; 102,307,846 issued at December 31, 2004 and 98,704,937 at June 30, 2004; 102,016,782 outstanding at December 31, 2004 and 98,413,873 at June 30, 2004 | 10 | 10 |

| | | |
|---|---|---|
| Class B Common Stock $ .0001 par value; 4,000,000 shares authorized, (10 votes per share), 3,953 issued and outstanding at December 31, 2004 and 4,153 issued and outstanding at June 30, 2004 | - | - |
| Class C Common Stock $.0001 par value; 10,000,000 shares authorized, (25 votes per share), 9,562,824 issued and outstanding at December 31, 2004 and June 30, 2004 | 1 | 1 |
| Paid-in capital in excess of par value | 156,221 | 152,090 |
| Accumulated other comprehensive loss | ( 37) | ( 46) |
| Accumulated deficit | (105,457) | (107,384) |
| Notes receivable from employee stockholders | ( 656) | ( 843) |
| Treasury stock, at cost - 291,064 shares of common stock at December 31, 2004 and June 30, 2004 | ( 675) | ( 675) |
| Total Stockholders' Equity | 49,408 | 43,154 |
| Total Liabilities and Stockholders' Equity | $ 80,016 | $ 77,201 |

See accompanying notes to condensed consolidated financial statements (unaudited).

FONAR CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(000's OMITTED, except per share data)

| | FOR THE THREE MONTHS ENDED DECEMBER 31, | |
|---|---|---|
| | 2004 | 2003 |
| REVENUES | | |
| Product sales - net | $ 18,938 | $ 8,603 |
| Product sales - related parties - net | 2,571 | 1,941 |
| Service and repair fees - net | 1,216 | 671 |
| Service and repair fees - related parties - net | 228 | 100 |
| Management and other fees - related medical practices - net | 5,961 | 5,884 |
| License fees and royalties | 585 | 690 |
| Total Revenues - Net | 29,499 | 17,889 |
| COSTS AND EXPENSES | | |
| Costs related to product sales | 12,119 | 5,342 |
| Costs related to product sales - related parties | 1,448 | 1,217 |
| Costs related to service and repair fees | 1,102 | 891 |
| Costs related to service and repair fees - related parties | 193 | 105 |
| Costs related to management and other fees - related medical practices | 3,757 | 3,779 |
| Research and development | 1,448 | 1,383 |
| Selling, general and administrative | 7,077 | 6,301 |
| Compensatory element of stock issuances for selling, general and administrative expenses | 923 | 1,116 |
| Provision for bad debts | 50 | 60 |
| Amortization of management agreements | 159 | 158 |
| Total Costs and Expenses | 28,276 | 20,352 |

| | | |
|---|---|---|
| Income (Loss) From Operations | 1,223 | ( 2,463) |
| Interest Expense | ( 67) | ( 63) |
| Investment Income | 154 | 113 |
| Interest Income - Related Parties | 6 | 10 |
| Other Income (Expense) | 67 | ( 10) |
| Minority Interest in Income of Partnerships | ( 220) | ( 212) |
| Income (Loss) Before Provision for Income Taxes | 1,163 | ( 2,625) |
| Provision for Income Taxes | 22 | 5 |
| NET INCOME (LOSS) | $ 1,141 | $( 2,630) |
| Net Income (Loss) Available to Common Stockholders | $ 1,060 | $( 2,630) |
| Basic Earnings (Loss) Per Common Share | $ .01 | $( .03) |
| Diluted Earnings (Loss) Per Common Share | $ .01 | $( .03) |
| Basic and Diluted Earnings Per Share-Common C | - | N/A |

See accompanying notes to condensed consolidated financial statements (unaudited).

FONAR CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(000's OMITTED, except per share data)

| | FOR THE SIX MONTHS ENDED DECEMBER 31, | |
|---|---|---|
| | 2004 | 2003 |
| REVENUES | | |
| Product sales - net | $36,282 | $13,454 |
| Product sales - related parties - net | 2,878 | 3,169 |
| Service and repair fees - net | 2,112 | 1,247 |
| Service and repair fees - related parties - net | 373 | 208 |
| Management and other fees - related medical practices - net | 11,752 | 11,838 |
| License fees and royalties | 1,170 | 1,275 |
| Total Revenues - Net | 54,567 | 31,191 |
| COSTS AND EXPENSES | | |
| Costs related to product sales | 23,039 | 8,091 |
| Costs related to product sales - related parties | 1,614 | 1,978 |
| Costs related to service and repair fees | 2,054 | 1,609 |
| Costs related to service and repair fees - related parties | 355 | 268 |
| Costs related to management and other fees - related medical practices | 7,254 | 7,169 |
| Research and development | 2,822 | 2,716 |
| Selling, general and administrative | 13,177 | 12,827 |
| Compensatory element of stock issuances for selling, general and administrative expenses | 1,704 | 2,333 |
| Provision for bad debts | 100 | 85 |
| Amortization of management agreements | 317 | 317 |
| Total Costs and Expenses | 52,436 | 37,393 |
| Income (Loss) From Operations | 2,131 | ( 6,202) |

| | | |
|---|---|---|
| Interest Expense | ( 132) | ( 123) |
| Investment Income | 260 | 188 |
| Interest Income - Related Parties | 13 | 27 |
| Other Income (Expense) | 143 | 88 |
| Minority Interest in Income of Partnerships | ( 446) | ( 433) |
| Income (Loss) Before Provision for Income Taxes | 1,969 | ( 6,455) |
| Provision for Income Taxes | 42 | 17 |
| NET INCOME (LOSS) | $ 1,927 | $( 6,472) |
| Net Income (Loss) Available to Common Stockholders | 1,789 | $( 6,472) |
| Basic Earnings (Loss) Per Common Share | $ .02 | $( .07) |
| Diluted Earnings (Loss) Per Common Share | $ .02 | $( .07) |
| Basic and Diluted Earnings Per Share-Common C | - | N/A |

See accompanying notes to condensed consolidated financial statements (unaudited).

FONAR CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(UNAUDITED)
(000'S OMITTED)

| | FOR THE THREE MONTHS ENDED DECEMBER 31, | |
|---|---|---|
| | 2004 | 2003 |
| Net income (loss) | $ 1,141 | $(2,630) |
| Other comprehensive loss, net of tax: | | |
| Unrealized losses on securities, net of tax | ( 32) | ( 10) |
| Total comprehensive income (loss) | $ 1,109 | $(2,640) |

See accompanying notes to condensed consolidated financial statements (unaudited).

FONAR CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(UNAUDITED)
(000'S OMITTED)

| | FOR THE SIX MONTHS ENDED DECEMBER 31, | |
|---|---|---|
| | 2004 | 2003 |
| Net income (loss) | $ 1,927 | $(6,472) |
| Other comprehensive income, net of tax: | | |
| Unrealized gains on securities, | | |

| | 2004 | 2003 |
|---|---|---|
| net of tax | 9 | 31 |
| Total comprehensive income (loss) | $ 1,936 | $(6,441) |

See accompanying notes to condensed consolidated financial statements (unaudited).

FONAR CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(000'S OMITTED)

| | FOR THE SIX MONTHS ENDED DECEMBER 31, | |
|---|---|---|
| | 2004 | 2003 |
| Cash Flows from Operating Activities: | | |
| Net income (loss) | $ 1,927 | $( 6,472) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Minority interest in net income of partnerships | 446 | 433 |
| Depreciation and amortization | 1,972 | 2,009 |
| Provision for bad debts | 100 | 85 |
| Compensatory element of stock issuances | 1,704 | 2,333 |
| Stock issued for costs and expenses | 2,173 | 9,671 |
| Reduction in notes receivable from employee stockholders adjusted to compensation | 126 | - |
| Gain on sale of equipment | ( 28) | - |
| Amortization of deferred revenue-license fee | ( 1,170) | ( 1,170) |
| (Increase) decrease in operating assets, net: | | |
| Accounts and management receivable | ( 2,041) | ( 1,544) |
| Costs and estimated earnings in excess of billings on uncompleted contracts | ( 723) | ( 1,057) |
| Inventories | ( 380) | ( 2,196) |
| Principal payments received on sales type lease-related party | - | 14 |
| Principal payments received on sales type lease | 74 | 66 |
| Prepaid expenses and other current assets | ( 576) | ( 1,517) |
| Other assets | ( 5) | ( 8) |
| Advances and notes to related medical practices | 130 | 74 |
| Increase (decrease) in operating liabilities, net: | | |
| Accounts payable | 235 | ( 74) |
| Other current liabilities | 2,309 | 1,259 |
| Customer advances | ( 4,755) | 4,645 |
| Billings in excess of costs and estimated earnings on uncompleted contracts | 195 | ( 3,769) |
| Other liabilities | ( 10) | 3 |
| Income taxes payable | ( 2) | 11 |
| Net cash provided by operating activities | 1,701 | 2,796 |

See accompanying notes to condensed consolidated financial statements (unaudited).

FONAR CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(000'S OMITTED)

| | FOR THE SIX MONTHS ENDED DECEMBER 31, 2004 | 2003 |
|---|---|---|
| Cash Flows from Investing Activities: | | |
| Sales (purchases) of marketable securities | ( 996) | 1,847 |
| Purchases of property and equipment | ( 1,165) | ( 258) |
| Costs of capitalized software development | ( 396) | ( 265) |
| Cost of patents and copyrights | ( 195) | ( 153) |
| Proceeds from sale of equipment | 31 | - |
| Repayment of note receivable from buyers of A&A Services - Discontinued operations | - | 150 |
| Net cash (used in) provided by investing activities | ( 2,721) | 1,321 |
| Cash Flows from Financing Activities: | | |
| Distributions to holders of minority interests | ( 382) | ( 439) |
| Repayment of borrowings and capital lease obligations | ( 242) | ( 616) |
| Net proceeds from exercise of stock options and warrants | 224 | 450 |
| Repayment of notes receivable from employee stockholders | 29 | - |
| Net cash used in financing activities | ( 371) | ( 605) |
| Increase (Decrease) in Cash and Cash Equivalents | ( 1,391) | 3,512 |
| Cash and Cash Equivalents - Beginning of Period | 9,474 | 9,334 |
| Cash and Cash Equivalents - End of Period | $ 8,083 | $12,846 |

See accompanying notes to condensed consolidated financial statements (unaudited).

FONAR CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004
(UNAUDITED)

NOTE 1 - 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 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 six months ended December 31, 2004 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2005. 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 16, 2004 for the fiscal year ended June 30, 2004.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

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

Earnings (Loss) Per Share

Basic earnings (loss) per share ("EPS") is computed based on weighted average shares outstanding and excludes any potential dilution. In accordance with EITF 03-6, "Participating Securities and the Two-Class method under FASB Statement No. 128" ("EITF 03-6"), which nullifies EITF Topic D-95, "Effect of Participating Convertible Securities on the Computation of Basic Earnings Per Share," the Company's participating convertible securities, which include Class B common stock and Class C common stock, are not included in the computation of basic EPS for the six months ended December 31, 2003 because the participating securities do not have a contractual obligation to share in the losses of the Company. For the six months ended December 31, 2004, the Company used the Two-Class method for calculating basic earnings per share and applied the if converted method in calculating diluted earnings per share. The provisions of EITF 03-6 became effective for the Company beginning April 1, 2004. The adoption of this new pronouncement did not have any impact on the Company's consolidated financial statements.

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. The number of common shares potentially issuable upon the exercise of certain options of approximately 689,000 for the six months ended December 31, 2004 have not been included in the computation of diluted EPS since the effect would be antidilutive. The number of common shares potentially issuable upon the exercise of options and warrants or conversion of the participating convertible securities that were excluded from the diluted EPS calculation was approximately 9,066,000, because they are antidilutive as a result of a net loss for the three and six months ended December 31, 2003.

FONAR CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004
(UNAUDITED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Earnings (Loss) Per Share (Continued)
(000's omitted, except per share data)

| | Three Months ended December 31, 2004 | | | Three Months ended December 31, 2003 |
|---|---|---|---|---|
| | Total | Common Stock | Class C Common Stock | Total |
| Basic | | | | |
| Numerator: | | | | |

| | | | | |
|---|---|---|---|---|
| Net income (loss) available to common stockholders | $1,060 | $1,034 | $26 | $(2,630) |
| Denominator: | | | | |
| Weighted average shares outstanding | | 100,822 | 9,563 | 88,988 |
| Basic earnings (loss) per common share | $ .01 | $ .01 | $ -- | $ (.03) |
| Diluted | | | | |
| Weighted average shares outstanding | 100,822 | 100,822 | 9,563 | 88,988 |
| Stock options | 311 | 311 | | -- |
| Warrants | 523 | 523 | | -- |
| Convertible Class C common stock | 3,188 | 3,188 | | |
| Denominator for diluted earnings per share: | | | | |
| Weighted average shares outstanding of common stock and equivalents | 104,844 | 104,844 | 9,563 | 88,988 |
| Diluted earnings (loss) per common share | $ .01 | $ .01 | $ -- | $ (.03) |

FONAR CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004
(UNAUDITED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Earnings (Loss) Per Share (Continued)
(000's omitted, except per share data)

| | Six Months ended December 31, 2004 | | | Six Months ended December 31, 2003 |
|---|---|---|---|---|
| | Total | Common Stock | Class C Common Stock | Total |
| Basic | | | | |
| Numerator: | | | | |
| Net income (loss) available to | | | | |

| | | | | |
|---|---|---|---|---|
| common stockholders | $ 1,789 | $1,746 | $ 43 | $ (6,472) |
| Denominator: | | | | |
| Weighted average shares outstanding | | 99,824 | 9,563 | 86,730 |
| Basic earnings (loss) per common share | $ 0 .02 | $ 0.02 | $ -- | $ (.07) |
| Diluted | | | | |
| Weighted average shares outstanding | 99,824 | 99,824 | 9,563 | 86,730 |
| Stock options | 195 | 195 | | -- |
| Warrants | 487 | 487 | | -- |
| Convertible Class C common stock | 3,188 | 3,188 | | |
| Denominator for diluted earnings per share: | | | | |
| Weighted average shares outstanding of common stock and equivalents | 103,694 | 103,694 | 9,563 | 86,730 |
| Diluted earnings (loss) per common share | $ .02 | $ .02 | $ -- | $ (.07) |

FONAR CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004
(UNAUDITED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Stock Options and Warrants and Similar Equity Instruments

At December 31, 2004, the Company had various stock-based employee compensation plans. As permitted under Statement of Financial Accounting Standard ("SFAS") No. 148, "Accounting for Stock-Based Compensation--Transition and Disclosure", which amended SFAS No. 123 ("SFAS 123"), "Accounting for Stock-Based Compensation", the Company has elected to continue to follow the intrinsic value method in accounting for its stock-based employee compensation arrangements as defined by Accounting Principles Board Opinion ("APB") No. 25,

"Accounting for Stock Issued to Employees", and related interpretations including Financial Accounting Standards Board ("FASB") Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation", an interpretation of APB No. 25. No stock-based employee compensation cost is reflected in operations, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant.

The following table illustrates the effect on net loss and loss per share if the

Company had applied the fair value recognition provisions of SFAS 123 to stock-based employee compensation:

| | For the Three Months Ended December 31, (000's omitted, except per share data) | | For the Six Months Ended December 31, (000's omitted, except per share data) | |
|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 |
| Net Income (loss) available to common shareholders | $1,060 | $(2,630) | $1,789 | $(6,472) |
| Less: Undistributed earnings allocated to Class C common stock | 26 | -- | 43 | -- |
| | 1,034 | (2,630) | 1,746 | (6,472) |
| Less: Total stock-based employee compensation expense determined under fair value based method for all awards | 24 | 50 | 52 | 248 |
| Pro forma Net Income (Loss) | $1,010 | $(2,680) | $ 1,694 | $(6,720) |

FONAR CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004
(UNAUDITED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Stock Options and Warrants and Similar Equity Instruments (Continued)

| | For the Three Months Ended December 31, (000's omitted, except per share data) | | For the Six Months Ended December 31, (000's omitted, except per share data) | |
|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 |
| Basic Net Income (Loss) Per Share As Reported | $ 0.01 | $ (0.03) | $ 0.02 | $ (0.07) |
| Basic Pro forma Net Income (Loss) Per Share | $ 0.01 | $ (0.03) | $ 0.02 | $ (0.08) |
| Diluted Net Income (Loss) per share as reported | $ 0.01 | $ (0.03) | $ 0.02 | $ (0.07) |

| | | | | |
|---|---|---|---|---|
| Diluted Pro Forma Net Income (Loss) per share | $ 0.01 | $ (0.03) | $ 0.02 | $ (0.08) |
| | ========= | ======== | ========= | ======== |

The fair value of options at date of grant was estimated using the Black-Scholes fair value based method with the following weighted average assumptions:

| | For the Three and Six Months Ended December 31, | |
|---|---|---|
| | 2004 | 2003 |
| Expected life (years) | 3 | 3 |
| Interest Rate | 2.69% | 4.00% |
| Annual Rate of dividends | 0% | 0% |
| Volatility | 55% | 92% |

Recent Accounting Pronouncements

In December, 2004, the Financial Accounting Standards Board ("FASB") issued its final standard on accounting for share-based payments ("SBP"), FASB Statement No. 123R (revised 2004), Share-Based Payment. The Statement requires companies to expense the value of employee stock options and similar awards. Under FAS 123R, SBP awards result in a cost that will be measured at fair value on the awards' grant date, based on the estimated number of awards that are expected to vest. Compensation cost for awards that vest would not be reversed if the awards expire without being exercised. The effective date for public companies is interim and annual periods beginning after June 15, 2005, and applied to all outstanding and unvested SBP awards at a company's adoption. Management does not anticipate that this Statement will have a significant impact on the Company's consolidated financial statements.

FONAR CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004
(UNAUDITED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Cash

At December 31, 2004, $5,500,000 of cash has been pledged as collateral on an outstanding bank loan and has been classified as restricted cash on the accompanying condensed consolidated balance sheet.

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable, net is comprised of the following at December 31, 2004:

(000's omitted)

| | Gross Receivable | Allowance for doubtful accounts | Net |
|---|---|---|---|
| Receivables from equipment sales and service contracts | $ 3,099 | $ 468 | $ 2,631 |
| | ======== | ========== | ======== |

Receivables from equipment

| | | | |
|---|---|---|---|
| sales and service contracts-related parties | $ 1,109 | $ 695 | $ 414 |
| Receivables from related medical practices ("PC's") | $ 16,438 | $ 1,974 | $ 14,464 |

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

The Company's receivables from the related PC's substantially consist of fees outstanding under management agreements, service contracts and lease agreements. Payment of the outstanding fees is based on collection by the PC's of fees from third party medical reimbursement organizations, principally insurance companies and health management organizations.

Collection by the Company of its accounts receivable may be impaired by the uncollectibility of the PC's medical fees from third party payors, particularly insurance carriers covering automobile no-fault and workers compensation claims due to longer payment cycles and rigorous informational requirements. Approximately 65% of the PC's net revenues for both the six months ended December 31, 2004 and 2003, 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 and contractual allowances. 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.

FONAR CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004
(UNAUDITED)

NOTE 3 - ACCOUNTS RECEIVABLE (Continued)

Net revenues from management and other fees charged to the related PC's accounted for approximately 21.5% and 38.0% of the consolidated net revenues for the six months ended December 31, 2004 and 2003, respectively. Product sales and service and repair fees from related parties amounted to approximately 6.0% and 14.2% of consolidated net revenues for the six months ended December 31, 2004 and 2003, respectively.

Unaudited Financial Information of Unconsolidated Managed Medical Practices

Summarized income statement data for the three months ended December 31, 2004 related to the 16 unconsolidated medical practices managed by the Company is as follows: (000's omitted) (Income Tax-Cash Basis)

| | |
|---|---|
| Patient Revenue - Net | $ 8,251 |
| Income from Operations | $ 158 |
| Net Income | $ 46 |

Summarized income statement data for the six months ended December 31, 2004 related to the 16 unconsolidated medical practices managed by the Company is as follows:

(000's omitted) (Income Tax-Cash Basis)

| | |
|---|---|
| Patient Revenue - Net | $16,385 |
| Income from Operations | $ 466 |
| Net Income | $ 233 |

FONAR CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004
(UNAUDITED)

NOTE 4 - INVENTORIES

Inventories included in the accompanying condensed consolidated balance sheet at December 31, 2004 consist of:

| | (000's omitted) |
|---|---|
| Purchased parts, components and supplies | $ 6,819 |
| Work-in-process | 2,497 |
| | $ 9,316 |

NOTE 5 - COSTS AND ESTIMATED EARNINGS ON UNCOMPLETED CONTRACTS AND CUSTOMER ADVANCES

1) Information relating to uncompleted contracts as of December 31, 2004 is as follows:

| | (000's omitted) |
|---|---|
| Costs incurred on uncompleted Contracts | $18,741 |
| Estimated earnings | 13,623 |
| | 32,364 |
| Less: Billings to date | 31,450 |
| | $ 914 |

Included in the accompanying condensed consolidated balance sheet at December 31, 2004 under the following captions:

| | |
|---|---|
| Costs and estimated earnings in excess of billings on uncompleted contracts | $ 2,546 |
| Cost and estimated earnings in excess of billings on uncompleted contracts-related party | 1,500 |
| Less: Billings in excess of costs and estimated earnings on uncompleted contracts | (2,691) |
| Less: Billings in excess of costs and estimated earnings on uncompleted contracts-related party | ( 441) |
| | $ 914 |

2) Customer advances consist of the following as of December 31, 2004:

| | Total | Related Parties | Other |
|---|---|---|---|
| Total Advances | $34,495 | $ 1,542 | $ 32,953 |

| | | | |
|---|---|---|---|
| Less: Advances on contracts under construction | 31,450 | 1,500 | 29,950 |
| | $ 3,045 | $ 42 | $ 3,003 |

FONAR CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004
(UNAUDITED)

NOTE 6 -STOCKHOLDERS' EQUITY

Common Stock

During the three months ended December 31, 2004:

a) The Company issued 512,939 shares of common stock to employees as compensation of $623,401 under stock bonus plans.

b) The Company issued 279,523 shares of common stock to consultants and others at a value of $329,961.

c) The Company issued 1,289,562 shares of common stock for costs and expenses of $1,532,557.

d) The Company issued 21,454 shares of common stock upon the exercise of stock options resulting in proceeds of $23,485.

During the six months ended December 31, 2004:

a) The Company issued 1,020,516 shares of common stock to employees as compensation of $1,214,814 under stock bonus plans.

b) The Company issued 414,257 shares of common stock to consultants and others at a value of $481,955.

c) The Company issued 1,858,822 shares of common stock for costs and expenses of $2,173,311.

d) The Company issued 6,410 shares of common stock upon the exercise of stock options resulting in compensation of $7,500.

e) The Company issued 21,454 shares of common stock upon the exercise of stock options resulting in proceeds of $23,485.

f) The Company issued 28,000 shares of common stock valued at $29,960 in connection with issuance of notes and loans receivable from employee stockholders.

Class B Common Stock

During the six months ended December 31, 2004, 200 shares of Class B common stock were converted to common stock leaving 3,953 of such shares outstanding as of December 31, 2004.

Warrants

On July 1, 2004, warrants to purchase 151,625 shares of the Company's common stock were exercised at an exercise price of $.79 per share.

On November 4, 2004 warrants to purchase 101,625 shares of the Company's common stock were exercised at an exercise price of $.79 per share.

FONAR CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004
(UNAUDITED)

NOTE 7 - SEGMENT AND RELATED INFORMATION

The Company operates in two industry segments - manufacturing and the servicing of medical equipment and management of physician practices, including diagnostic imaging services.

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, 2004. All inter-segment sales are market-based. The Company evaluates performance based on income or loss from operations.

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

(000's omitted)

| | Medical Equipment | Physician Management Services | Total |
|---|---|---|---|
| For the three months ended December 31, 2004: | | | |
| Net revenues from external customers | $ 23,538 | $ 5,961 | $ 29,499 |
| Inter-segment net revenues | $ 107 | $ -- | $ 107 |
| Income from operations | $ 915 | $ 308 | $ 1,223 |
| Depreciation and amortization | $ 603 | $ 387 | $ 990 |
| Compensatory element of stock issuances | $ 496 | $ 427 | $ 923 |
| Capital expenditures | $ 489 | $ 510 | $ 999 |
| For the three months ended December 31, 2003: | | | |
| Net revenues from external customers | $ 12,005 | $ 5,884 | $ 17,889 |
| Inter-segment net revenues | $ 113 | $ -- | $ 113 |
| Income (Loss) from operations | $ (2,533) | $ 70 | $ (2,463) |
| Depreciation and amortization | $ 546 | $ 463 | $ 1,009 |
| Compensatory element of stock issuances | $ 596 | $ 520 | $ 1,116 |
| Capital expenditures | $ 202 | $ 98 | $ 300 |
| For the six months ended December 31, 2004: | | | |
| Net revenues from external customers | $ 42,815 | $ 11,752 | $ 54,567 |
| Inter-segment net revenues | $ 243 | $ -- | $ 243 |
| Income from operations | $ 1,536 | $ 595 | $ 2,131 |
| Depreciation and amortization | $ 1,198 | $ 774 | $ 1,972 |
| Compensatory element of stock issuances | $ 781 | $ 923 | $ 1,704 |
| Capital expenditures | $ 989 | $ 767 | $ 1,756 |
| Total Identifiable Assets | $ 50,756 | $ 29,260 | $ 80,016 |
| For the six months ended December 31, 2003: | | | |
| Net revenues from external customers | $ 19,353 | $ 11,838 | $ 31,191 |
| Inter-segment net revenues | $ 234 | $ -- | $ 234 |
| Income (Loss) from operations | $ (6,230) | $ 28 | $ (6,202) |

| | | | |
|---|---|---|---|
| Depreciation and amortization | $ 1,083 | $ 926 | $ 2,009 |
| Compensatory element of stock issuances | $ 1,192 | $ 1,141 | $ 2,333 |
| Capital expenditures | $ 554 | $ 122 | $ 676 |
| Total Identifiable Assets | $ 37,625 | $ 27,468 | $ 65,093 |

FONAR CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004
(UNAUDITED)

NOTE 8 - SUBSEQUENT EVENTS

Common Stock

During the period from January 1, 2005 through January 31, 2005:

a) The Company issued 265,135 shares of common stock to employees as compensation of $381,047 under stock bonus plans.

b) The Company issued 224,882 shares of common stock for costs and expenses of $327,107.

c) The Company issued 19,118 shares of common stock to consultants and others at a value of $28,369.

d) The Company issued 20,348 shares of common stock upon the exercise of stock options resulting in proceeds of $22,658.

e) The Company issued 41,806 shares of common stock valued at $41,806 in connection with issuance of a note receivable from an employee stockholder.

FONAR CORPORATION AND SUBSIDIARIES

REASON FOR AMENDMENT

Fonar Corporation is amending this 10-Q to change the language contained in Part I, Item 4, in accordance with comments made by the Securities and Exchange Commission, to revise the language relating to our conclusions as to the effectiveness of our financial controls.

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

For the six month period ended December 31, 2004 (first half of fiscal 2005), we reported net income of $1.9 million on revenues of $54.6 million as compared to a net loss of $6.5 million on revenues of $31.2 million for the first half of fiscal 2004. Our success in achieving profitability in the first half of fiscal 2005 is primarily due to the increase in our product sales and the maintenance of healthy gross profit margins on product sales.

For the fiscal quarter ended December 31, 2004 (second quarter of fiscal 2005), we reported a net income of $1.14 million on revenues of $29.5 million as compared to a net loss of $2.6 million on revenues of $17.9 million for the second quarter of fiscal 2004.

The second quarter of fiscal 2005 represented an even greater improvement over our performance in the first quarter of fiscal 2005 reflecting an increase in our net income of 45% from $786,000 to $1.14 million and an increase of 17.7% in our revenues from $25.1 million in the first quarter to $29.5 million in the second quarter.

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 actual results, performance or achievements of the Company 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. The Company's 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 the control of the Company. Although the Company believes that its 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 the Company or any other person that the objectives and plans of the Company will be achieved.

Results of Operations

The Company operates in two industry segments: the manufacture and servicing of medical (MRI) equipment, the Company's traditional business which is conducted directly by Fonar, and in physician and diagnostic management services, which is conducted through Fonar's wholly-owned subsidiary, Health Management Corporation of America ("HMCA").

Trends continuing in the second quarter of fiscal 2005 and contributing to our profitability include an increase in product sales with an increasing emphasis on unrelated party sales revenues compared to related parties (entities in which Dr. Damadian or members of his family have an interest) revenues and the maintenance of high gross profit margins on product sales: 37% for the first six months of fiscal 2005 compared to 39% for the first six months of fiscal 2004. We attribute these trends to the continuing growth of our MRI product sales, particularly our Stand-Up(TM) MRI scanners (also called Upright(TM) MRI scanners) and the increased efficiencies resulting from our higher sales volumes.

For the three month period ended December 31, 2004, as compared to the three month period ended December 31, 2003, overall revenues from MRI product sales increased 104% ($21.5 million compared to $10.5 million). Unrelated party scanner sales ($18.9 million compared to $8.6 million) increased at an even greater rate of 120% while related party scanner sales ($2.6 million compared to $1.9 million) increased 32.5%. Overall, for the second quarter of fiscal 2005, revenues for the medical equipment segment increased by 96% to $23.5 million from $12.0 million for the second quarter of fiscal 2004. The revenues generated by HMCA, also increased, by 1.3% to $6.0 million for the second quarter of fiscal 2005 as compared to $5.9 million for the second quarter of fiscal 2004.

For the six month period ended December 31, 2004, as compared to the six month period ended December 31, 2003, overall revenues from MRI product sales increased 135.6% ($39.2 million compared to $16.6 million). Unrelated party scanner sales ($36.3 million compared to $13.5 million) increased at a rate of 170% while related party scanner sales ($2.9 million compared to $3.2 million) decreased by 9.4%. Overall, for the second quarter of fiscal 2005, revenues for the medical equipment segment increased by 121.3% to $42.8 million from $19.3 million for the second quarter of fiscal 2004.

The increase in product sales reflected continuing market acceptance of the Company's Stand-Up(TM) MRI scanners. During the first six months of fiscal 2005, revenues of approximately $38.4 million were recognized from sales of Stand-Up(TM) MRI scanners. During the first six months of fiscal 2004, the Company recognized revenues of approximately $16.5 million from the sale of Stand-Up(TM) MRI scanners.

There were approximately $3.6 million in foreign sales revenues for the first six months of fiscal 2005 as compared to approximately $502,000 million in foreign sales revenues for the first six months of fiscal 2004.

We recognize MRI scanner sales revenues on the "percentage of completion" basis, which means the revenues are recognized as the scanner is manufactured. Revenues recognized in a particular quarter do not necessarily reflect new orders or progress payments made by customers in that quarter. We build the scanner as the customer meets certain benchmarks in its site preparation in order to minimize the time lag between incurring costs of manufacturing and our receipt of the cash progress payments from the customer which are due upon delivery. Consequently, there can be a disparity between the revenues recognized in a fiscal period and the number of product sales. Generally, this results from the revenues from a scanner sale being recognized in a fiscal quarter or quarters following the quarter in which the sale was made. Illustrating this point, the revenue recognition for product sales for the first six months of fiscal 2005 increased 135.6% from the first six months of fiscal 2004 ($39.1 million compared to $16.6 million), although there was a decrease in the number of orders of 14%: we received orders for 12 Stand-Up MRI scanners and for one Fonar 360(TM) scanner during the first six months of fiscal 2005 as compared to orders for 14 Stand-Up MRI scanners during the first six months of fiscal 2004.

Service and repair revenues increased by 87.3%, from $771,000 for the second quarter of fiscal 2004 to $1.4 million for the first quarter of fiscal 2005. License fees and royalties decreased by 15% from $690,000 for the second quarter of fiscal 2004 to$585,000 for the first quarter of fiscal 2005.

Service and repair revenues increased by 70.8%, from $1.5 million for the first six months of fiscal 2004 to $2.5 million for the first six months of fiscal 2005. License fees and royalties decreased by 8.2% from $1.3 million for the first six months of fiscal 2004 to$1.2 million for the first six months of fiscal 2005.

Costs related to product sales increased by 106.8% from $6.6 million in the second quarter of fiscal 2004 to $13.6 million in the first quarter of 2005, reflecting the corresponding increase in product sales revenues. Costs related to providing service increased 30.1% from $996,000 in the second quarter of fiscal 2004 to $1.3 million in the first quarter of 2005. In both cases, the percentage increase in revenues was greater than the percentage increase in costs.

Costs related to product sales increased by 144.9% from $10.1 million in the first six months of fiscal 2004 to $24.7 million in the first six months of fiscal 2005. Costs related to providing service increased 28.4% from $1.9 million in the first six months of fiscal 2004 to $2.4 million in the first six months of fiscal 2005.

As a result, combined with the containment of other expenses, our operating income for our medical equipment segment was $916,000 for the second quarter of fiscal 2005 as compared to an operating loss of $2.5 million for the second quarter of fiscal 2004.

Our operating income for our medical equipment segment was $1.5 million for the first six months of fiscal 2005 as compared to an operating loss of $6.2 million of fiscal 2004.

Our gross profit margin for the entire medical equipment segment (as opposed to just product sales) was 36.9% for the second quarter of fiscal 2005, as compared to 37.8% for the first quarter of fiscal 2004, and 37.1% for the first six months of fiscal 2005 as compared to 39.4% for the first six months of fiscal 2004.

HMCA revenues increased in the second quarter of fiscal 2005, by 1.3% to $6.0 million from $5.9 million for the second quarter of fiscal 2004. For the first six months of fiscal 2005 and 2004 HMCA revenues were $11.8. HMCA is seeking to increase revenues from the MRI facilities by continuing its program of replacing older scanners at the sites we manage with Stand-Up(TM) MRI scanners. We now manage four sites equipped with Stand-Up(TM) MRI scanners, and we are planning to open four new sites with Stand-Up(TM) MRI scanners within the next twelve months, which would bring the total number of facilities with Stand-Up(TM) MRI scanners we manage to eight. During fiscal 2004, HMCA closed one MRI site. HMCA experienced operating income of $308,000 for the second quarter of fiscal 2005 compared to operating income of $70,000 for the second quarter of fiscal 2004. For the first six months of fiscal 2005, HMCA experienced operating income of $595,000 as compared to operating income of $28,000 for the first six months of fiscal 2004.

HMCA cost of revenues for the second quarter of fiscal 2005 and 2004 was $3.8 million. HMCA costs of revenues remained essentially constant at $7.2 million in the first six months of fiscal 2004 and fiscal 2005.

As our consolidated revenues increased by 64.8% to $29.5 million for the second quarter of fiscal 2005 from $17.9 million for the second quarter of fiscal 2004, the total costs and expenses increased by 38.9% to $28.3 million for the second quarter of fiscal 2005 from $20.3 million for the second quarter of fiscal 2004. Selling, general and administrative expenses increased by 12.7% from $6.3 million in the second quarter of fiscal 2004 to $7.1 million in the second quarter of fiscal 2005. This increase was related to our medical segment participating in 3 trade shows. For the six months of fiscal 2005 the consolidated revenues increased by 74.9% to $54.6 million from $31.2 for the first six months of fiscal 2004. Our total costs and expenses increased 40.2% from $37.4 million for the first six months of fiscal 2004 to $52.4 million for the first six months of fiscal 2005. Selling, general and administrative expenses increased by 2.7% from $12.8 million in the first six months of fiscal 2004 to $13.2 million in the first six months of fiscal 2005.

The compensatory element of stock issuances decreased by 27.0% from $2.3 million in the first six months of fiscal 2004 to $1.7 million in the first six months of fiscal 2005. This reflected a lesser use of Fonar's stock in lieu of cash to pay employees, consultants and professionals for services.

Research and development expenses increased by 3.9% to $2.8 million for the first six months of fiscal 2005 as compared to $2.7 million for the first six months of fiscal 2004.

Interest expense in the first six months of fiscal 2005 increased by 7.3% to $132,000 from $123,000 for the first six months of fiscal 2004 due to new borrowings.

Inventories decreased by 2.8% to $9.3 million at December 31, 2004 as compared to $9.6 million at June 30, 2004 as the Company filled orders and product sales revenues increased.

Management fee receivable and accounts receivable increased by 12.1% to

$17.5 million at December 31, 2004 from $15.6 million at June 30, 2004, primarily due to increased receivables from the Company's medical equipment segment which includes service contracts on MRI scanners.

As a result the Company's operating and net income were $2.1 million and $1.9 million, respectively, for the first six months of fiscal 2005 as compared to operating and net losses of $6.2 million and $6.5 million, respectively, for the first six months of fiscal 2004.

The overall trends reflected in the results of operations for the first six months of fiscal 2005 are an increase in revenues from product sales, as compared to the first six months of fiscal 2004 ($54.6 million for the first six months of fiscal 2005 as compared to $31.2 million for the first six months of fiscal 2004), and an increase in MRI equipment segment revenues relative to HMCA revenues ($42.8 million or 78% from the MRI equipment segment as compared to $11.8 million or 22% from HMCA, for the first six months of fiscal 2005, as compared to $19.4 million or 62% from the MRI equipment segment and $11.8 million or 38%, from HMCA, for the first six months of fiscal 2004). In addition, we experienced an increase in unrelated party sales relative to related party sales in our medical equipment product sales ($36.3 million or 93% to unrelated parties and $2.9 million or 7% to related parties for the first six months of fiscal 2005 as compared to $13.5 million, or 81% to unrelated parties and $3.2 million or 19% to related parties for the first six months of fiscal 2004). The relative decline in related party sales reflects the increasing penetration of the marketplace by our Stand-Up(TM) MRI scanners which has more than compensated for the decline in the related party sales revenues. During the first six months of fiscal 2005, related party sales decreased, by 9.2% to $2.9 million as compared to $3.2 million for fiscal 2004.

We believe that the continuing trends in our medical equipment division have resulted in improved operating results and a profitable six months in fiscal 2005. Factors beyond our control, such as the timing and rate of market growth which depend on economic conditions, make it impossible to forecast future operating results. Nevertheless, we believe we have been pursuing the correct policies which now have brought us to the point of profitability and should prove successful in keeping the Company profitable and improving its operating results and net income.

The Company's Stand-Up(TM), and Fonar-360(TM) MRI scanners, together with the Company's works-in-progress, are intended to significantly improve the Company's competitive position.

The Company's Stand-Up(TM) scanner, which operates at 6000 gauss (.6 Tesla) field strength, allows patients to be scanned while standing or reclining. As a result, for the first time, MRI is able to be used to show abnormalities and injuries under full weight-bearing conditions, particularly the spine and joints. A floor-recessed elevator brings the patient to the height appropriate for the targeted image region. A custom-built adjustable bed will allow patients to sit or lie on their backs, sides or stomachs at any angle. Full-range-of-motion studies of the joints in virtually any direction will be possible, an especially promising feature for sports injuries.

The Stand-Up(TM) will also be useful for MRI directed 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 should be 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.

The Fonar 360(TM) is an enlarged room sized magnet in which the floor, ceiling and walls of the scan room are part of the magnet frame. This is made possible by Fonar's patented Iron-Frame(TM) technology which allows the

Company's engineers to control, contour and direct the magnet's lines of flux in the patient gap where wanted and almost none outside of the steel of the magnet where not wanted. Consequently, this scanner allows 360 degree access to the patient and physicians and family members are able to enter the scanner and approach the patient.

The Fonar 360(TM) is presently marketed as a diagnostic scanner and is sometimes referred to as the Open Sky(TM) MRI. In its Open Sky(TM) version, the Fonar 360(TM) serves as an open patient friendly scanner which allows 360 degree access to the patient on the scanner bed. To optimize the patient-friendly character of the Open Sky(TM) MRI, the walls, floor, ceiling and magnet poles are decorated with landscape murals. The patient gap is twenty inches and the magnetic field strength, like that of FONAR's Stand-Up(TM) and QUAD(TM) MRI scanner, is 0.6 Tesla.

In the future, we may also develop the Fonar 360(TM) to function as an operating room. We sometimes refer to this contemplated version of the Fonar 360(TM) as the OR-360(TM). In its OR-360(TM) version, which is in the planning stages, the enlarged room sized magnet and 360 access to the patient afforded by the Fonar 360(TM) would permit full-fledged surgical teams to walk into the magnet and perform surgery on the patient inside the magnet. Most importantly the exceptional quality of the MRI image and its capacity to exhibit tissue detail on the image, can then be obtained real time during surgery to guide the surgeon in the surgery. Thus surgical instruments, needles, catheters, endoscopes and the like could be introduced directly into the human body and guided to the malignant lesion by means of the MRI image. The number of inoperable lesions should be greatly reduced by the availability of this new capability. Most importantly treatment can be carried directly to the target tissue. The interventional OR-360(TM) version of the Fonar 360(TM) is still in the planning stages. There is not a prototype. A full range of MRI compatible surgical instruments using ceramic cutting tools and beryllium-copper materials are commercial available.

The Company's works in progress include an in-office weight bearing extremities scanner which will be able to be used to examine the knee, foot, elbow, hand, wrist and shoulder. This scanner will allow scans to be performed under both weight- bearing and non-weight-bearing conditions.

The Company expects marked demand for its most commanding MRI products, the Stand- Up(TM) and the Fonar 360(TM), first for their exceptional features in patient diagnosis and treatment. These scanners additionally provide improved image quality and higher imaging speed because of their higher field strength of .6 Tesla.

Liquidity and Capital Resources

Cash, cash equivalents and marketable securities decreased slightly from $20.6 million at June 30, 2004 to $20.2 million at December 31, 2004. Principal uses of cash during the first six months of fiscal 2005 included capital expenditures for property and equipment of $1.2 million, repayment of borrowings and capital lease obligations in the amount of $242,000, capitalized software development costs of $396,000 and capitalized patent and copyright costs of $195,000.

Marketable securities approximated $12.1 million as at December 31, 2004, as compared to $11.1 million at June 30, 2004. At December 31, 2004, our investments in U.S. Government obligations were $5.4 million, our investments in corporate and government agency bonds were $3.6 million and our investments in certificates of deposit and deposit notes were $3.1 million. The investments made have had the intended effect of maintaining a stable investment portfolio.

Cash provided by operating activities for the first six months of fiscal

2005 approximated $1.7 million. Cash provided by operating activities was attributable primarily to net income of $1.9 million, stock issued for compensation, costs and expenses of $3.9 million, offset primarily by an increase in accounts receivable of $2.0 million.

Cash used in investing activities for the first six months of fiscal 2005 approximated $2.7 million. The principal uses of cash from investing activities during the first six months of fiscal 2005 consisted of, expenditures for property and equipment of approximately $1.2 million and capitalized software and patent costs of approximately $591,000, and marketable securities of $996,000.

Cash used by financing activities for the first six months of fiscal 2005 approximated $371,000. The principal uses of cash in financing activities during the first six months of fiscal 2005 consisted of repayment of principal on long-term debt and capital lease obligations of approximately $242,000 and distributions to holders of minority interests of $382,000. The source of cash from financing activities was net proceeds from exercises of stock options and warrants of $224,000.

The Company's obligations and the periods in which they are scheduled to become due are set forth in the following table:

(000's OMITTED)

| Obligation | Total | Due in Less than 1 year | Due in 1-3 years | Due in 4-5 years | Due after 5 years |
|---|---|---|---|---|---|
| Long-term debt | $ 6,116 | $5,723 | $ 393 | $ -- | $ -- |
| Capital lease Obligation | 345 | 175 | 112 | 58 | -- |
| Operating Leases | 10,929 | 2,426 | 4,543 | 2,792 | 1,168 |
| Total cash Obligations | $ 17,390 | $8,324 | $ 5,048 | $ 2,850 | $ 1,168 |

Total liabilities decreased by 10.4% to $30.2 million at December 31, 2004 from $33.7 million at June 30, 2004.

We experienced a decrease in long-term debt from $720,000 at June 30, 2004 to $563,000 at December 31, 2004, an increase in billings in excess of costs and estimated earnings on uncompleted contracts from $2.9 million at June 30, 2004 to $3.1 million at December 31, 2004, an increase in accounts payable from $5.4 million at June 30, 2004 to $5.6 million at December 31, 2004, a decrease in customer advances from $7.8 million at June 30, 2004 to $3.0 million at December 31, 2004 and an increase in other current liabilities from $10.0 million at June 30, 2004 to $11.0 million at December 31, 2004.

As of December 31, 2004, the obligations of approximately $11.0 million in other current liabilities included deferred revenue from license fees of $1.2 million, unearned revenue on service contracts of $4.3 million, accrued salaries and payroll taxes of $1.0 million and excise and sales taxes of $2.5 million.

Our working capital approximated $29.9 million as of December 31, 2004, as compared to working capital of $22.6 million as of June 30, 2004, increasing by

32.3%. This results principally from an increase in accounts receivable of $1.9 million ($15.6 million at June 30, 2004 as compared to $17.5 million at December 31, 2004), along with a decrease of customer advances of $3.8 million ($7.8 million at June 30, 2004 as compared to $3.0 million at December 31, 2004). Accounts receivable increased from $15.6 million as at June 30, 2004 to $17.5 million as at December 31, 2004 due to increased receivables from the Company's medical equipment segment and in particular, an increase of approximately $1.6 million in accounts receivable from service contracts on MRI scanners.

With respect to current liabilities, the current portion of long-term debt decreased from $6.0 million at June 30, 2004 to $5.9 million at December 31, 2004, and billings in excess of costs and estimated earnings on uncompleted contracts increased from $2.9 million at June 30, 2004 to $3.1 million at December 31, 2004. Customer advances decreased from $7.8 million at June 30, 2004 to $3.0 million at December 31, 2004 and accounts payable increased from $5.4 million at June 30, 2004 to $5.6 million at December 31, 2004.

The aggregate decrease in customer advances and billings in excess of costs and estimated earnings on uncompleted contracts reflects the Company's progress in filling its backlog of orders, which also translates into an increase in recognized revenues. The increase in accounts payable resulted from the purchase of parts to manufacture the scanners.

In order to conserve our capital resources, we have issued common stock under our stock bonus and stock option plans to compensate employees and non-employees for services rendered. In the first six months of fiscal 2005, the compensatory element of stock issuances was $1.7 million as compared to $2.3 million for the first six months of fiscal 2004. Utilization of equity in lieu of cash compensation has improved our liquidity since it increases cash available for other expenditures.

The foregoing trends in Fonar's capital resources are expected to improve as Fonar's MRI scanner products gain wider market acceptance and produce increased product sales.

Fonar has not committed to making additional capital expenditures in the 2005 fiscal year other than its intention to continue research and development expenditures at current levels. HMCA also expects to incur capital expenditures of approximately $1.0 million to acquire premises and to construct and furnish four new Stand-Up(TM) MRI facilities, which would bring the total number of Stand-Up(TM) MRI facilities managed by HMCA to eight.

Our business plan calls for a continuing emphasis on providing our customers with enhanced equipment service and maintenance capabilities and delivering state-of-the-art, innovative and high quality equipment upgrades at competitive prices.

We believe that the above mentioned financial resources, anticipated cash flows from operations and potential financing sources, will provide the cash flows needed to achieve the sales, service and production levels necessary to support our operations.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our investments are in fixed rate instruments. Below is a tabular presentation of the maturity profile of the fixed rate instruments held by us at December 31, 2004.

INTEREST RATE SENSITIVITY
PRINCIPAL AMOUNT BY EXPECTED MATURITY
WEIGHTED AVERAGE INTEREST RATE

| Year of Maturity | Investments in Fixed Rate Instruments | Weighted Average Interest Rate |
|---|---|---|
| 12/31/05 | $ 6,569,333 | 1.36% |
| 12/31/06 | 1,498,982 | 3.33% |
| 12/31/07 | 1,100,000 | 3.21% |
| 12/31/08 | 1,050,000 | 3.08% |
| 12/31/09 | 1,648,500 | 3.13% |
| 12/31/10 | 100,000 | 3.50% |
| 12/31/13 | 100,000 | 4.12% |
| Total: | $ 12,066,815 | |
| Fair Value at 12/31/04 | $ 12,022,407 | |

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

See Note 12 to the consolidated Financial Statements in our Form 10-K as of and for the year ended June 30, 2004 for information on long-term debt.

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

The Company maintains controls and procedures designed to ensure that information required to be disclosed in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. Based upon their evaluation of those controls and procedures performed as of the end of the period covered by this report, the principal executive and acting principal financial officer of the Company concluded that disclosure controls and procedures were effective as of the end of the period covered by the report.

(b) Change in internal controls.

The Company made no significant changes in its internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation of those controls by the principal executive and acting principal financial officer.

PART II - OTHER INFORMATION

Item 1 - Legal Proceedings: There were no material changes in litigation for the first six months of fiscal 2005.

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

Item 3 - Defaults Upon Senior Securities: None

Item 4 - Submission of Matters to a Vote of Security Holders: None

Item 5 - Other Information: None

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

(earnings press release) filed on September 16, 2004
8-K (earnings press release) filed on November 9, 2004
Exhibit 31.1 Certification See Exhibits
Exhibit 32.1 Certification See Exhibits

SIGNATURES

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

FONAR CORPORATION
(Registrant)

By: /s/ Raymond V. Damadian
Raymond V. Damadian
President & Chairman

Dated: June 28, 2005