FONAR CORP
Form 10-Q/A
May 24, 2002

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

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

FOR QUARTER ENDED MARCH 31, 2002   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 the number of shares outstanding of each of the issuer's classes of common stock, as of the close of the period covered by this report.

Class	Outstanding at March 31, 2002
Common Stock, par value $.0001	67,245,054
Class B Common Stock, par value $.0001	4,211
Class C Common Stock, par value $.0001	9,562,824
Class A Preferred Stock, par value $.0001	7,836,286

FONAR CORPORATION AND SUBSIDIARIES
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Reasons for Amendment

The 10-Q is being amended to correct an error in the results of operations reported for the separate segments. Certain interest expenses, which should have been allocated to the Company's medical equipment segment, were instead allocated to the physician management services segment. Although the consolidated operating loss for the Company is unchanged, the operating loss shown for the medical equipment segment has increased from $10.8 million to $11.9 million and the operating loss for the physician management services segment of $479,000 is now operating income of $668,000. See Note 12 (Segment and Related Information) and the 8th paragraph of Item 2 (Management's Discussion and Analysis of Financial Conditions and Results of Operations).

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

ASSETS	March 31, 2002 (UNAUDITED)	June 30, 2001
Current Assets:		
Cash and cash equivalents	$ 4,897	$14,040
Marketable securities	5,871	6,085

Accounts receivable - net	1,240	850
Accounts receivable - related medical practices - net	12,303	13,181
Costs and estimated earnings in excess of billings on uncompleted contracts	896	1,769
Inventories	4,288	3,725
Investment in sales-type lease - related parties	194	191
Investment in sales-type lease	116	120
Prepaid expenses and other current assets	1,320	904
Total current assets	31,125	40,865
Restricted cash	5,500	5,500
Property and equipment - net	10,204	10,637
Advances and notes to related parties - net	2,770	1,559
Investment in sales-type lease - related parties	2,480	2,514
Investment in sales-type lease	773	861
Notes receivable - net	375	375
Management agreements - net	19,524	20,438
Other intangible assets - net	2,095	1,854
Other assets	290	297
	$ 75,136	$ 84,900

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

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

LIABILITIES AND STOCKHOLDERS' EQUITY	March 31, 2002 (UNAUDITED)	June 30, 2001
Current Liabilities:		
Current portion of long term debt and capital lease obligations	$ 3,646	$ 6,635
Accounts payable	2,581	3,021
Other current liabilities	6,201	6,176
Customer advances	4,947	1,672
Billings in excess of costs and estimated earnings on uncompleted contracts	839	351
Income taxes payable	782	765
Convertible debentures	1,800	4,500

Total current liabilities	20,796	23,120
Long-term debt and capital lease obligations, less current portion	6,862	10,109
Unearned revenue - license fee	7,605	9,360
Other non-current liabilities	355	327
Total liabilities	35,618	42,916
Minority interest	99	153
Commitments and contingencies	-	-
STOCKHOLDERS' EQUITY		
Common Stock $.0001 par value; 85,000,000 shares authorized; 67,245,054 and 59,524,455 issued 66,953,990 and 59,233,391 outstanding at March 31, 2002 and June 30, 2001 respectively	7	6
Class B Common Stock $ .0001 par value; 4,000,000 shares authorized, (10 votes per share), 4,211 issued and outstanding at March 31, 2002 and at June 30, 2001	-	-
Class C Common Stock $.0001 par value; 10,000,000 shares authorized, (25 votes per share), 9,562,824 issued and outstanding at March 31, 2002 and at June 30, 2001	1	1
Class A non-voting Preferred Stock $.0001 par value; 8,000,000 authorized, 7,836,286 issued and outstanding at March 31, 2002 and at June 30, 2001	1	1
Paid-in capital in excess of par value	114,796	104,984
Accumulated other comprehensive income	82	84
Accumulated deficit	(73,607)	(60,001)
Notes receivable - stockholders	(990)	(1,040)
Unearned compensation	(196)	(1,529)
Treasury stock - 291,064 shares of common stock at March 31, 2002 and June 30, 2001	(675)	(675)
Total stockholders' equity	39,419	41,831
Total liabilities and stockholders' equity	$ 75,136	$ 84,900

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 MARCH 31,	
	2002	2001
REVENUES		
Product sales - net	$ 1,897	$ 1,513
Product sales - related parties - net	1,101	798
Service and repair fees - net	527	510
Patient revenue - net	-	431

Management and other fees - related medical practices -net	6,843	7,537
License fees and royalties	585	585
Total Revenues - Net	10,953	11,374
COSTS AND EXPENSES:		
Cost related to product sales	1,411	1,213
Cost related to product sales - related parties	625	729
Cost related to service and repair fees	605	592
Cost related to patient revenue	-	382
Cost related to management and other fees - related parties	3,909	3,797
Research and development expenses	1,193	1,528
Selling, general and administrative	5,137	4,319
Provision for bad debts	13	15
Compensatory element of stock issuances for selling, general and administrative expenses	1,606	1,320
Amortization of management agreements	305	305
Total Costs and Expenses	14,804	14,200
Loss From Operations	(3,851)	(2,826)
Interest Expense	(147)	(362)
Interest expense to induce certain noteholders to accept the company's stock to extinguish debt	(544)	-
Financing costs paid in stock and warrants	(626)	-
Investment Income	185	523
Other income (expense)	(11)	(32)
Minority interest in (income) loss of partnerships	(46)	(92)
Loss before provision for income taxes	(5,040)	(2,789)
Provision for income taxes	10	12
NET LOSS	$(5,050)	$(2,801)
Basic and diluted Net Loss per share	$(.07)	$(.04)
Weighted average number of shares outstanding	76,296	69,517

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 NINE MONTHS ENDED MARCH 31,	
	2002	2001
REVENUES		

Product sales - net	$ 3,413	$ 2,646
Product sales - related parties - net	3,534	916
Service and repair fees - net	1,608	1,433
Patient revenue - net	-	1,148
Management and other fees - related medical practices - net	20,499	22,780
License fees and royalties	1,818	1,839
Total Revenues - Net	30,872	30,762
COSTS AND EXPENSES:		
Cost related to product sales	2,478	2,685
Cost related to product sales - related parties	2,545	1,072
Cost related to service and repair fees	1,822	1,809
Cost related to patient revenue	-	979
Cost related to management and other fees - related parties	12,227	13,126
Research and development expenses	3,653	4,556
Selling, general and administrative	14,987	13,537
Provision for bad debts	197	15
Compensatory element of stock issuances for selling, general and administrative expenses	3,311	2,853
Amortization of management agreements	914	914
Total Costs and Expenses	42,134	41,546
Loss From Operations	(11,262)	(10,784)
Interest Expense	(709)	(955)
Interest expense to induce certain noteholders to accept the Company's stock to extinguish debt	(544)	-
Financing costs paid in stock and warrants	(1,641)	-
Investment Income	718	1,526
Gain on sale of subsidiary/partnership interest	-	750
Other income (expense)	5	28
Minority interest in (income) loss of partnerships	(147)	(260)
Loss before provision for income taxes	(13,580)	(9,695)
Provision for income taxes	27	26
NET LOSS	$(13,607)	$(9,721)
Basic and diluted Net Loss per share	$(.19)	$(.14)
Weighted average number of shares outstanding	72,935	69,517

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 NINE MONTHS ENDED MARCH 31,	
	2002	2001
Cash Flows from Operating Activities		
Net Loss	$(13,607)	$(9,721)
Adjustments to reconcile net loss to net cash used in operating activities:		
Minority interest in net income (loss)	147	260
Depreciation and amortization	3,884	3,489
Financing costs paid in stock and warrants	1,641	-
Provision for bad debts	197	15
Gain on sale of subsidiary/partnership interest	-	(750)
Compensatory element of stock issuances	3,311	2,853
Stock issued for professional fees	586	547
Amortization of unearned license fee	(1,755)	(1,755)
License fee	-	11,700
(Increase) decrease in operating assets, net:		
Accounts and notes receivable	488	(1,551)
Costs and estimated earnings in excess of billings on uncompleted contracts	873	(142)
Inventories	(563)	(1,154)
Investment in sales-type lease - related parties	-	(935)
Investment in sales-type lease	-	(1,050)
Principal payments received on investment in sales-type leases - related parties	31	81
Principal payments received on investment in sales-type leases	92	25
Prepaid expenses and other current assets	(342)	111
Other assets	7	8
Advances and notes to related parties	(1,211)	(664)
Increase (decrease) in operating liabilities, net:		
Accounts payable	(440)	436
Other current liabilities	111	(3,041)
Customer advances	3,275	(330)
Billings in excess of costs and estimated earnings on uncompleted contracts	488	-
Other liabilities	28	-
Income taxes payable	17	-
Net cash used in operating activities	(2,742)	(1,568)
Cash Flows from Investing Activities:		
Purchases of property and equipment	(2,119)	(1,506)
Investment in marketable securities	212	4,227
Costs of capitalized software development	(616)	-
Net cash provided by (used in) investing activities	(2,523)	2,721

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 NINE MONTHS ENDED MARCH 31, 2002	2001
Cash Flows from Financing Activities:		
Distributions to holders of minority interest	(201)	(267)
Repayment of borrowings and capital lease obligations	(3,677)	(3,606)
Purchase of treasury stock	-	(4)
Proceeds on sale of partnership interest	-	750
Net cash used in financing activities	(3,878)	(3,127)
Increase (Decrease) in Cash and cash equivalents	(9,143)	(1,974)
Cash and cash equivalents at beginning of period	14,040	11,430
Cash and cash equivalents at end of period	$ 4,897	$ 9,456

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

	FOR THE NINE MONTHS ENDED MARCH 31, 2002	2001
Net loss	$(13,607)	$(9,721)
Other comprehensive income, net of tax:		
Unrealized gains (losses) on securities, net of tax	(2)	345
Total comprehensive loss	$(13,609)	$(9,376)

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

FONAR CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2002
(UNAUDITED)

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("US GAAP") 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 US GAAP 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 nine-month period ended March 31, 2002 are not necessarily indicative of the results that may be expected for the year ending June 30, 2002. The consolidated balance that at June 30, 2001 has been derived from the audited consolidated financial statements at that date. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K/A filed on October 30, 2001 for the fiscal year ended June 30, 2001.

NOTE 2 - 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 marketing 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 its installed base of customers through its service and upgrade programs.

Health Management Corporation of America ("HMCA") was organized by the Company in March 1997 as a wholly-owned subsidiary in order to enable the Company to expand into the business of providing comprehensive management services to physicians' practices and other medical providers, including diagnostic imaging centers and ancillary services. The services provided by the Company include development, administration, leasing of office space, facilities and medical equipment, provision of supplies, staffing and supervision of non-medical personnel, legal services, accounting, billing and collection and the development and implementation of practice growth and marketing strategies.

HMCA entered the physician and diagnostic management services business through the consummation of two acquisitions, effective June 30, 1997, two acquisitions which were consummated during fiscal 1998 and one acquisition consummated in August of 1998. The acquired companies in all cases were actively engaged in the business of managing medical providers. The medical providers are diagnostic imaging centers, principally MRI scanning centers, multi-specialty practices and primary care practices.

FONAR CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2002
(UNAUDITED)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

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

The Company no longer consolidates any medical practices which it manages. The Company had previously consolidated certain medical practices managed as a result of the 1998 acquisitions of A & A Services, Inc. and Dynamic Health Care Management, Inc. The Company also previously consolidated the practices conducted by Superior Medical Services, P.C. The Company has determined that consolidation of such medical practices is not appropriate because the underlying management agreements do not meet all of the six criteria of Emerging

Issue Task Force ("EITF") Consensus No. 97-2. Accordingly the consolidating statement of operations and cash flows for the nine months ended March 31, 2001 have been restated. The significant effect of such restated financial statements for the nine months ended March 31, 2001 has been to decrease revenue and related costs by $3.4 million. In addition, the consolidated balance sheet caption "Excess of Costs Over Net Assets of Businesses Acquired - Net" has been reclassified to "Management Agreements - Net".

Net revenue from the Company's wholly owned Florida multi-specialty practice is reflected in the accompanying Consolidated Statement of Operations under the caption "Patient - Net". Net revenue from the management of related medical practices is reflected in the accompanying consolidated statements of operations under the caption "Management and Other Fees - Related Medical Practices - Net".

Earnings (Loss) Per Share

Basic earnings (loss) per share is computed based on weighted average shares outstanding and excludes any potential dilution. Diluted loss per share 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.

Options and warrants to purchase approximately 4,036,000 and 403,000 shares of common stock were outstanding at March 31, 2002 and 2001, respectively, but were not included in the computation of diluted earnings per share due to losses in both periods, as a result of the options and warrants being antidilutive. In addition, convertible debentures, which are convertible into 879,336 shares at March 31, 2002 were antidilutive.

FONAR CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2002
(UNAUDITED)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 141 ("SFAS 141"), "Business Combinations" which supersedes Accounting Principles Board ("APB") Opinion No. 16, "Business Combinations". SFAS 141 requires the purchase method of accounting for business combinations initiated after June 30, 2001 and eliminates the pooling-of-interests method. In addition, SFAS 141 establishes specific criteria for the recognition of intangible assets separately from goodwill and requires unallocated negative goodwill to be written off immediately as an extraordinary gain. The provisions of SFAS 141 have been adopted by the Company as of July 1, 2001. The adoption of SFAS 141 has not changed the method of accounting used in previous business combinations, initiated prior to July 1, 2001.

In July 2001, the FASB also issued Statement of Financial Accounting Standards No. 142 ("SFAS 142"), "Goodwill and Other Intangible Assets," which is effective for fiscal years beginning after December 15, 2001. Certain provisions may also apply to acquisitions initiated subsequent to June 30, 2001. SFAS 142 supersedes APB Opinion No. 17 "Intangible Assets" and requires, among other things, the discontinuance of amortization related to goodwill and indefinite lived intangible assets. These assets will then be subject to an impairment test at least annually. In addition, the standard includes provisions upon adoption for the reclassification of certain existing recognized intangible as goodwill, reassessment of the useful lives of existing recognized intangibles and reclassification of certain intangibles out of previously reported goodwill. The Company does not anticipate any significant impact to the consolidated financial statements as the result of the adoption of SFAS No. 142 and expects to continue to amortize all identifiable intangible assets.

In October 2001, the FASB issued Statement of Financial Accounting Standards No. 144 ("SFAS 144"), "Accounting for the Impairment or Disposal of Long-Lived Assets," which supersedes Statement of Financial Accounting standards No. 121 ("SFAS 121), "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" and certain provisions of APB Opinion No. 30, "Reporting Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions". SFAS 144 requires that long-lived assets to be disposed of by sale, including discontinued operations, be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. SFAS 144 also broadens the reporting requirements of discontinued operations to include all components of an entity that have operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. The provisions of SFAS 144 are effective for fiscal years beginning after December 15, 2001. The Company is evaluating the effect of this statement on the Company's results of operations and financial position.

FONAR CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2002
(UNAUDITED)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In May 2002, the FASB issued Statement of Financial Accounting Standards No. 145 ("SFAS 145"), "Rescission of FASB Statements Nos. 4, 44, and 64, Amendment to FASB Statement No. 13, and Technical Corrections". Provisions of SFAS 145 concerning the rescission of SFAS No. 4 (classification of gain or loss on the extinguisment of debt) are effective for fiscal years beginning after May 15, 2002. Gains or losses on debt extinguishments that have been shown on the income statement as extraordinary items in prior periods should be reclassified (if they do not otherwise meet the criteria for extraordinary status in Opinion 30).

SFAS 4, issued in 1975, requires that all gains or losses from the extinguishment of debt be classified as an extraordinary item. Since SFAS 4 was issued, debt extinguishment has become an integral part of the risk management strategies of some entities. Because transactions in support of such a strategy are not unusual and infrequent, they do not qualify for extraordinary treatment pursuant to, Reporting the Results of Operations.

The Company has adopted the provisions of SFAS 145 for the quarter ended March 31, 2002, the effect of which is to reflect the additional interest costs of approximately $544,000 as a result of the extinguishment of debt to be classified as an other expense item and not as an extraordinary item (see Note 11).

Reclassifications

Certain prior year balances have been reclassified to conform to the current year presentation.

NOTE 4 - CASH AND CASH EQUIVALENTS

The Company considers all short-term highly liquid investments with a maturity of three months or less when purchased to be cash or cash equivalents. At March 31, 2002, the Company had cash deposits of approximately $4.6 million in excess of federally insured limits.

NOTE 5 - MARKETABLE SECURITIES

The following is a summary of marketable securities at March 31, 2002:

	(000's omitted)		
	Amortized Cost	Unrealized Holdings Gains	Fair Market Value
U.S. Government obligations	$4,066	$ 66	$4,132
Corporate bonds	1,723	16	1,739
	$5,789	$ 82	$5,871

FONAR CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2002
(UNAUDITED)

NOTE 6 - ACCOUNTS RECEIVABLE, NET

Accounts receivable, net is comprised of the following at March 31, 2002:

	(000's omitted)		
	Gross Receivable	Allowance for doubtful accounts and contractual allowances	Net
Receivable from equipment sales and service contracts	$ 2,273	$ 1,033	$1,240
Receivables from related PC's	$13,338	$1,035	$12,303

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 with related PC's. 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 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 56%

and 40% of the PC's net revenues for the nine months ended March 31, 2002 and 2001, 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 takes all legally available steps, including legally prescribed arbitrations, to collect its receivables. Credit losses associated with the receivables are provided for in the consolidated financial statements and have historically been within management's expectations.

Net revenues from the related PC's, including product sales, accounted for approximately 82% and 80% of the consolidated net revenues for the nine months ended March 31, 2002 and 2001, respectively.

Unaudited Financial Information of Unconsolidated Managed Medical Practices

Summarized income statement data for the nine months ended March 31, 2002 related to the 24 unconsolidated medical practices managed by the Company is as follows:

	(000's omitted)
Patient Revenue - Net	$ 25,757
Income from Operations	$ 112
Net Income	$ 8

FONAR CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2002
(UNAUDITED)

NOTE 7 - INVENTORIES

Inventories included in the accompanying consolidated balance sheets consist of:

	(000's omitted) March 31, 2002	June 30, 2001
Purchased parts, components and supplies	$3,511	$3,050
Work-in-process	777	675
	$4,288	$3,725

NOTE 8 - COSTS AND ESTIMATED EARNINGS ON UNCOMPLETED CONTRACTS AND CUSTOMER ADVANCES

(000's omitted)

1) Information relating to uncompleted contracts as of March 31, 2002 is as follows:

Costs incurred on uncompleted contracts	$3,452
Estimated earnings	1,025

		4,477
Less:	Billings to date	4,420
		$ 57

Included in the accompanying consolidated balance sheet under the following captions:

Costs and estimated earnings in excess of billings on uncompleted contracts	$ 896
Billings in excess of costs and estimated earnings on uncompleted contracts	839
	$ 57

2) Customer advances consist of the following:

Total advances from customers	$9,367
Less: Advances from customers on contracts under construction	4,420
	$4,947

FONAR CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2002
(UNAUDITED)

NOTE 9 - CONVERTIBLE DEBENTURES

Pursuant to a securities purchase agreement, dated May 24, 2001, between the Company and an investor group, the Company issued and sold to the investor group on that date for an aggregate purchase price of $4.5 million:

4% convertible debentures due June 30, 2002 in the aggregate principal amount of $4.5 million, convertible into shares of the Company's common stock at a conversion price of $2.047 per share, subject to adjustment.

Purchase warrants to purchase an aggregate of 659,501 shares of the Company's common stock at an initial exercise price of $1.801 per share, subject to adjustment; and

Callable warrants to purchase an aggregate of 2,000,000 shares of the Company's common stock at a fluctuating exercise price which will vary depending on the market price for the Company's common stock.

In connection with the issuance of the debentures, the Company paid a placement fee in the amount of $157,500. In addition, the Company issued 300,000 purchase warrants to the placement agent.

The debentures are convertible at the option of the holder at a price of $2.047 per share. If the holders decide not to convert, the debenture is payable in ten monthly installments of $450,000 commencing September 1, 2001. At the option of the Company, the principal installments can be either in cash or shares of the Company's' common stock, valued at the lesser of: a) 90% of the average of the four lowest closing bid prices during the preceding month, or b) the average of the four lowest closing bid prices during the preceding calendar month, less $0.125. By amendment dated October 25, 2001, however, the payments originally due October 1, 2001 and November 1, 2001, were extended to November 5, 2001, and for those payments, the stock was valued at the average of the two lowest closing bid prices for October, 2001 less $0.25. For the nine months ended March 31, 2002, the Company made these payments for principal due of $2,700,000 and related accrued interest on this principal of $63,800 through the issuance of 2,793,97 shares of the Company's common stock.

The purchase warrants cover 959,501 shares of common stock and have an exercise price of $1.801 per share, subject to adjustment. The exercise period extends to May 24, 2006.

The callable warrants cover 2,000,000 shares of common stock and have a variable exercise price. Subject to a maximum price of $6.00 per share and a minimum price of $2.00 per share, which is subject to adjustment, pursuant to the terms of the warrants, the exercise price will be equal to the average closing bid price of the Company's common stock for the full calendar month preceding the date of exercise. The exercise period extends to May 24, 2004.

The Company has the option of redeeming up to 200,000 callable warrants per month at a price of $0.01 per underlying warrant share, if the average closing bid price of its common stock is greater than 115% of the warrant price in effect for five consecutive trading days in any calendar month.

FONAR CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2002
(UNAUDITED)

NOTE 9 - CONVERTIBLE DEBENTURES (Continued)

The debentures and warrants provide for proportionate adjustments in the event of stock splits, stock dividends and reverse splits. In addition, the conversion and exercise prices will be reduced, with certain specified exemptions, if the Company issues shares at lower prices, then the debenture conversion or warrant exercise prices, or less than market price for the common stock.

The terms of the registration rights agreement with the investor requires the Company to register approximately two times the number of shares necessary to repay the debentures in common stock at the lower of the market price, as computed under the agreement, or the conversion price, plus the number of shares underlying the warrants.

NOTE 10 - NOTES PAYABLE

Pursuant to a stock payment agreement consummated January 11, 2002 between the Company and Dr. Glenn Muraca and Dr. Giovanni Marciano, Dr. Muraca and Dr. Marciano agreed to accept payment of certain debt obligations in shares of common stock the Company issued 1,000,000 shares of common stock to each of them, or 2,000,000 shares in the aggregate at $1.27 per share totaling $2,539,333. The shares are being issued to pay four promissory notes which were issued, HMCA, in partial payment of the purchase price for the acquisition of A&A Services, Inc. The total balance of principal and interest due under the notes as of January 11, 2002 was $3,076,791. Payments under the notes were due quarterly. In order to induce Dr. Muraca and Marciano to accept payment in stock and in the manner provided in the stock payment agreement, the Company agreed to pay a 15% premium on the note obligations and related accrued interest. The total amount due as a result is $3,613,325 in the aggregate. The additional interest of $ 544,370 as a result of the agreement in order to induce the notes to accept payment of the note obligations has been recorded as an other expense item (and not an extraordinary item) in the statement of operations for the three and nine months ended March 31, 2002 in accordance with provisions of SFAS 145 (see Note 3).

Under the terms of the stock payment agreement, The Company will issue shares, and the net proceeds from the sale of the shares will be applied to the indebtedness. The quarterly payment due dates were waived, but the net proceeds received by the selling stockholders must be sufficient to pay the full indebtedness for each note, including the premium on the note, by the final maturity date of the note: September 20, 2002 in the case of two of the notes and December 20, 2002 in the case of two of the notes. If a note, including the premium, is not satisfied in full by the time of its final maturity date, then interest will accrue on the unpaid balance at the rate of 6% per annum and the selling stockholders could require the difference to be paid in cash.

In the event the net proceeds from the sale of the 2,000,000 shares issued are not sufficient to pay the obligations by July 1, 2002, the Company will issue additional shares in an amount estimated to be sufficient to pay the balance due. The Company has reserved the option not to issue more than 5,000,000 shares in the aggregate.

FONAR CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(UNAUDITED)

NOTE 11 - SUPPLEMENTAL CASH FLOW INFORMATION

During the nine months ended March 31, 2002 and 2001, the Company paid approximately $700,000 and $951,000 for interest, respectively. In addition, during the nine months ended March 31, 2002 and 2001, the Company paid approximately $8,000 and $48,000 for income taxes, respectively.

During the nine months ended March 31, 2002:

a) The Company issued 451,512 shares of common stock for professional services of $585,623.

b) The Company issued 1,627,657 shares of common stock to employees as compensation of $2,125,571 under stock bonus plans.

c) The Company issued 584,795 shares of common stock for consulting services of $733,743.

d) The Company issued 2,793,972 shares of common stock in satisfaction of principal of $2,700,000 and accrued interest of $63,800.

e) The Company issued 2,000,000 shares of common stock in satisfaction of principal of $2,539,333.

During the nine months ended March 31, 2001:

a) The Company issued 1,003,679 shares of common stock to employees as compensation of $1,639,941 under stock bonus plans.

b) The Company issued 870,067 shares of common stock for consulting services of $1,544,779.

c) The Company acquired equipment of $176,480 under equipment notes payable obligations.

d) The Company issued 365,000 shares of common stock for professional services of $544,000.

FONAR CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2002
(UNAUDITED

NOTE 12 - 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 10-K/A as of June 30, 2001. 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 nine months ended March 31, 2002:			
Net revenue from external customers	11,138	20,499	31,637
Inter-segment net revenues	765	-	765
Operating (loss) income	(11,930)	668	(11,262)
Depreciation and amortization	1,941	1,943	3,884
Compensatory element of stock issuances	1,645	1,666	3,311
Total identifiable assets	38,832	36,304	75,136
Capital expenditures	1,204	915	2,119
For the nine months ended March 31, 2001:			
Net revenue from external customers	7,669	23,928	31,597
Inter-segment net revenues	835	-	835
Operating (loss) income	(12,948)	2,164	(10,784)
Depreciation and amortization	1,642	1,847	3,489
Compensatory element of stock issuances	1,393	1,460	2,853
Total identifiable assets	42,164	40,014	84,900
Capital expenditures	898	608	1,506

NOTE 13 - SUBSEQUENT EVENTS

In April, 2002, the Company granted options to three employees to purchase 135,000 shares of the Company's common stock at exercise prices ranging from $.97 to $1.00. The options must be exercised within ten years from the date of grant.

FONAR CORPORATION AND SUBSIDIARIES

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

For the fiscal quarter ended March 31, 2002 (third quarter of fiscal 2002), the Company reported a net loss of $5.1 million on revenues of $11.0 million as compared to a net loss of $2.8 million on revenues of $11.4 million for the third quarter of fiscal 2001.

For the nine month period ended March 31, 2002, the Company reported a net loss of $13.6 million on revenues of $30.9 million as compared to a net loss of $9.7 million on revenues of $30.8 million for the nine month period ended March 31, 2001.

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 physician and diagnostic management services, which is conducted through Fonar's wholly-owned subsidiary, Health Management Corporation of America ("HMCA").

MRI equipment sales increased dramatically, by 92%, from $3.6 million for the first nine months of fiscal 2001 to $6.9 million for the first nine months of fiscal 2002, reflecting increased sales of the Stand-Up MRI scanners. Service and repair revenues increased by 15%, from $1.4 million for the first nine months of fiscal 2001 to $1.6 million for the first nine months of fiscal 2002. Consequently, overall revenues recognized by the Company's MRI equipment manufacturing and service business increased by 53%, from $6.8 million in the first nine months of fiscal 2001 to $10.4 million in the first nine months of fiscal 2002. There were significant increases in scanner sales to both unrelated parties, from $2.6 million in the first nine months of fiscal 2001 to $3.4 million in the first nine months of fiscal 2002 (31%) and to related parties, from $916,000 in the first nine months of fiscal 2001 to $3.5 million in the first nine months of fiscal 2002 (289%). As a result the operating loss from the Company's MRI equipment manufacturing and service business was $10.8 million for the nine months of fiscal 2002 as compared to $12.9 million for the first nine months of fiscal 2001.

The dramatic increase in product sales reflected market acceptance of the Company's Stand-Up MRI scanners. During the first nine months of fiscal 2002, revenues of approximately $6.9 million were recognized from sales of Stand-Up MRI scanners. During the first nine months of fiscal 2001, revenues of approximately $1.9 million were recognized from the sales of QUAD scanners, $1.0 million from the sale of Stand-Up MRI scanners, and $329,000 from the sale of Echo scanners.

There were $1.2 million in foreign sales revenues for the first nine months of fiscal 2002 as compared to no foreign sales revenues for the first nine months in fiscal 2001.

Impacting on the losses in fiscal 2002 were increased interest and financing costs ($2.9 million for the first nine months of fiscal 2002 compared to $955,000 for the first nine months of fiscal 2001), a reduction in investment income ($718,000 for the first nine months of fiscal 2002 compared to $1.5 million for the first nine months of fiscal 2001) and lower revenues from HMCA ($20.5 million for the first nine months of fiscal 2002 as compared to $23.9 million for the first nine months of fiscal 2001).

HMCA (physician and diagnostic management services) experienced operating income of $668,000 for the first nine months of fiscal 2002 compared to income of $2.2 million for the first nine months of fiscal 2001. The decline in HMCA income was attributable to lower revenues reflecting a decline in management fees ($20.5 million for the first nine months of fiscal 2002 compared to $22.8 million for the first nine months of fiscal 2001) from the facilities and medical practices managed by HMCA. During fiscal 2002, five of the MRI scanning facilities managed by HMCA were closed, contributing to the decline in revenues.

Accordingly the Company's consolidated operating loss was $11.3 million for the first nine months of fiscal 2002 as compared to a consolidated operating loss of $10.8 million for the first nine months of fiscal 2001.

Although the Company's scanner sales increased significantly from fiscal 2001, low product sales volume, together with a decline in management fees, are the principal reasons for the Company's operating losses. Product sales revenues attributable to the Company's medical (MRI) equipment business were $6.9 million for the first nine months of fiscal 2002 as compared to $3.6 million for the first nine months of fiscal 2001. Costs of revenues attributable to the Company's product sales were $5.0 million for the nine months of fiscal 2002 as compared to $3.8 million for the first nine months of fiscal 2001.

The Company's efforts to improve equipment sales volume have emphasized research and development to improve the competitiveness of its products and increased marketing and sales efforts. Research and development expenditures were $3.7 million for the first nine months of fiscal 2002 and $4.6 million for the first nine months of fiscal 2001.

Selling, general and administrative expenses increased, from $13.5 million in the first nine months of fiscal 2001 to $15.0 million in the first nine months of fiscal 2002, primarily due to the expansion of Fonar's sales force (an increase of approximately $665,000), the implementation of a television advertising campaign in the third quarter of fiscal 2002 ($269,000), and the amortization of deferred financing costs of $222,000 during fiscal 2002 incurred in connection with the issuance of convertible debentures in the principal amount of $4.5 million in May 2001.

The increase in compensatory element of stock issuance from approximately $2.9 million for the first nine months of fiscal 2001 to approximately $3.3 million for the first nine months of fiscal 2002 reflected greater use of Fonar's stock bonus plan to pay certain employees in stock rather than cash.

Interest expense ($1.3 million) in the first nine months of fiscal 2002 as compared to $955,000 for the first nine months of fiscal 2001) increased by 37%. Financing costs paid in shares of stock and warrants, however, in the amount of $1.6 million, were incurred in the first nine months of fiscal 2002, reflecting the amortization of the value of the warrants issued in connection with issuance of the Company's convertible debentures ($882,000) and financing costs in connection with the Company's convertible debentures ($759,000).

Inventories increased to $4.3 million at March 31, 2002 from $3.7 million at June 30, 2001 as the Company purchased parts and commenced manufacturing scanners to fill orders and anticipated orders.

Accounts receivable increased to $1.2 million as at March 31, 2002 from

$850,000 as at June 30, 2001, principally reflecting increased revenues from service contracts on MRI scanners, although receivables from related medical practices declined, reflecting the decline in HMCA revenues.

In July, 2000 General Electric and the Company entered into an agreement under which General Electric agreed to act as a sales representative for the Company's Indomitable (TM) Stand-Up MRI Scanner. Following receipt of FDA clearance, Fonar has been working closely with GE Medical Systems to assist them in preparing their sales force to market and sell the Stand-Up MRI. General Electric purchased two Stand-Up MRI scanners to resell to its customers in April 2002.

The Company's Indomitable (TM) (Stand-Up), QUAD (TM) and Fonar-360 (TM) MRI scanners, together with the Company's works-in-progress (QUAD 12000S (TM) MRI), are intended to significantly improve the Company's competitive position. In addition, the Company offers a low cost open scanner, the Echo (TM) MRI, operating at .3 Tesla field strength.

The Company's Indomitable (TM) scanner, which received clearance to market from the FDA on October 3, 2000, will allow patients to be scanned while standing or reclining. As a result, for the first time, MRI will be 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.

Indomitable(TM) will also be useful for MR-directed surgical procedures as the surgeon would have unhindered access to the patient 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 has an enlarged room sized magnet in which the magnet frame is incorporated into the floor, ceiling and walls of the scan room. 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. Physicians and family members are able to actually enter the scanner and approach the patient. In its Open Sky version, the Fonar 360 serves as an open patient friendly scanner which allows 360 degree access to the patient on the scanner bed. The walls can be decorated with panoramic murals and the entire scan room can be decorated to be incorporated into the pictured landscape.

In its future interventional OR-360 version, the enlarged room sized magnet and 360 degree access to the patient afforded by the Fonar 360 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 exceptional capacity to exhibit tissue detail on the image, by virtue of the nuclear resonance signal's extraordinary capacity to create image contrast, can then be obtained real time during surgery to guide the surgeon in the surgery. Thus surgical instruments, needles, catheters, endoscopes and the like can 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 "QUAD" scanners are unique MRI scanners in that four sides are open thus allowing access to the scanning area from four vantage points. The starshaped open design of the QUAD will also make possible a host of new applications, particularly MRI mammography and MRI directed surgery (Interventional MRI). The QUAD (TM) 12000 MRI scanner utilizes a 6000 gauss iron core electromagnet and is accessible from four sides. The QUAD 12000 is the first "open" MRI scanner at high field. The QUAD (TM) 7000 is similar in design to the QUAD 12000 but utilizes a smaller 3,500 gauss electromagnet.

The Company is also developing a superconductive version of its open iron frame magnets, the "QUAD 12000S" (TM), and has completed construction of a prototype with a 0.6 Tesla superconductive magnet. The Company's design of its superconductive magnet anticipated the possibility of making its other products available as superconducting magnets. Therefore, it is the Company's objective to make Indomitable (TM) and the Fonar 360 available to FONAR's customers as either iron-frame resistive models or iron-frame superconductive magnets depending on customer preference and pricing.

The Company expects marked demand for its high-field "Open MRI" scanners since image quality increases as a direct proportion to magnetic field strength. The Company anticipates that the variety of its "Open MRI" products will also serve to maximize the appeal of its product line to a wide variety of users. The Company's new scanners provide improved image quality and high speed imaging at costs that are significantly less than the competition and more in keeping with the medical cost reduction demands being made by our national leaders on behalf of the public. In addition, the Company offers a low cost scanner, the Echo, for the particularly cost conscious customers.

Liquidity and Capital Resources

As a result of increased sales, the Company's utilization of its cash reserves slowed significantly in the third quarter of fiscal 2002.

Although cash and cash equivalents decreased from $14.0 million at June 30, 2001 to $4.9 million at March 31, 2002, cash and cash equivalents declined only 18% in the third quarter, from $5.8 million to $4.9 million, as compared to a decline of 24%, from $7.6 million to $5.8 million, in the second quarter and a decline of 46%, from $14.0 million to $7.6 million, in the first quarter. Principal uses of cash during the first nine months of fiscal 2002 included: capital expenditures of $2.1 million, repayment of long-term debt of $3.7 million and $3.3 million to fund operating activities for the first nine months of fiscal 2002.

Marketable securities approximated $5.9 million as of March 31, 2002 and $6.1 million as of June 30, 2001. Such investments were in U.S. government obligations and corporate bonds.

Total liabilities decreased since June 30, 2001 by $7.2 million to $35.8 million at March 31, 2002. The decrease in liabilities from June 30, 2001 is attributable primarily to the repayment of long-term debt and capital lease obligations of $3.7 million and the amortization of the license fee of $1.8 million.

As of March 31, 2002, the Company had a bank credit facility of $5,500,000. The unused portion of the facility was approximately $175,000. The interest on loans made under the facility is either the bank's prime rate, as in effect from time to time, or 0.5% plus the bank's cost of funds rate, as selected by Fonar when the loan is made.

The Company's business plan currently includes an aggressive program for manufacturing and selling its new line of scanners and expanding its new physician and diagnostic management services business.

In May of 2001, the Company issued convertible debentures in the principal amount of $4.5 million. These debentures are convertible at the option of the holder at a price of $2.047 per share. Otherwise, the debentures are payable in ten monthly installments of principal of $450,000 each, with interest at 4% per annum. The installments can be paid in cash or common stock at the Company's option. In such case the common stock would be valued at the lesser of: a) 90% of the average of the four lowest closing bid prices during the preceding month, or b) the average of the four lowest closing bid prices during the preceding calendar month, less $0.125. By amendment dated October 25, 2001, however, the payments originally due October 1, 2001 and November 1, 2001, were extended to November 5, 2001, and for those payments, the stock was valued at the average of the two lowest closing bid prices for October, 2001 less $0.25. Through May 15, 2002, the Company has issued 4,419,026 shares in payment of the debentures. As of May 15, 2002, one principal payment ($450,000) plus interest remains to be made.

No part of the debentures have been converted to date. The ability of the Company to pay this debt in common stock increases the liquidity of the Company by enabling cash to be used for operations and to pay other obligations.

Pursuant to a stock payment agreement consummated in January, 2002 between the Company and Dr. Glenn Muraca and Dr. Giovanni Marciano, Dr. Muraca and Dr. Marciano agreed to accept payment of certain debt obligations in shares of common stock and the Company issued 1,000,000 shares of common stock to each of them, or 2,000,000 shares in the aggregate. The shares are being issued to pay four promissory notes which were issued by our subsidiary, Health Management Corporation of America or HMCA, in partial payment of the purchase price for the acquisition of A&A Services, Inc. The total balance of principal and interest due under the notes as of December 20, 2001 was $3,076,791. Payments under the notes were due quarterly. In order to induce Dr. Muraca and Marciano to accept payment in stock and in the manner provided in the stock payment agreement, the Company agreed to pay a premium on the note obligations. The total amount due as a result of the stock purchase agreement was $3,613,326 in the aggregate.

Under the terms of the stock payment agreement, Company will issue shares, and the net proceeds from the sale of the shares will be applied to the indebtedness. The quarterly payment due dates were waived, but the net proceeds received by the selling stockholders must be sufficient to pay the full indebtedness for each note, including the premium on the note, by the final maturity date of the note: September 20, 2002 in the case of two of the notes and December 20, 2002 in the case of two of the notes. If a note, including the premium, is not satisfied in full by the time of its final maturity date, then interest will accrue on the unpaid balance at the rate of 6% per annum and the selling stockholders could require the difference to be paid in cash.

In the event the net proceeds from the sale of the 2,000,000 shares issued are not sufficient to pay the obligations by July 1, 2002, the Company will issue additional shares in an amount estimated to be sufficient to pay the balance due. The Company has reserved the option not to issue more than 5,000,000 shares in the aggregate. This transaction will increase the liquidity of the Company by making cash available for other purposes.

The Company believes that it has sufficient cash resources and other liquid assets to support its operations. The Company and its subsidiary, HMCA, are continuing to explore both bank financing and the placement of debt and equity securities.

PART II - OTHER INFORMATION

Item 1 - Legal Proceedings:

There were no material changes in litigation for the first nine months of fiscal 2002 from that described in the Company's Form 10-K for the fiscal year ended June 30, 2001.

Item 2 - Changes in Securities: 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: None

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: May 24, 2002