

Edgar Filing: FONAR CORP - Form DEF 14A

FONAR CORP  
Form DEF 14A  
May 11, 2005

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to section 14(a) of the Securities and Exchange Act of 1934 (Amendment No. )

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to 240.14a-12

Fonar Corporation

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(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required
- Fee computed on table below per Exchange Act Rules 14-6(i)(1) and 0-11.

1) Title of each class of securities to which transaction applies:

N/A

2) Aggregate number of securities to which transaction applies:

N/A

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount of which the filing fee is calculated and state how it was determined):  
N/A

4) Proposed maximum aggregate value of transaction:

N/A

5) Total fee paid:

N/A

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 Fee paid previously with preliminary materials.

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[ ] Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a) (2) and identify the filing for which the offsetting fee was paid previously.

FONAR CORPORATION

Proxy - Annual Meeting of Stockholders - June 6, 2005

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

The undersigned, a stockholder of Fonar Corporation (the "Company"), hereby revoking any proxy heretofore given, does hereby appoint Raymond V. Damadian, David B. Terry, and Kurt Reimann, and each of them, proxies with full power of substitution, for and in the name of the undersigned to attend the Annual Meeting of the Stockholders of the Company to be held at Wyndham Wilmington Hotel, 700 King Street, Wilmington, Delaware on June 6, 2005 at 10:00 a.m., local time, and at any adjournment(s) thereof, and there to vote upon all matters specified in the notice of said meeting, as set forth herein, and upon such other business as may properly and lawfully come before the meeting, all shares of stock of the Company which the undersigned would be entitled to vote if personally present at said meeting.

THIS PROXY WHEN PROPERLY EXECUTED WILL BE VOTED IN THE MANNER DIRECTED HEREIN BY THE UNDERSIGNED STOCKHOLDER. IF NO DIRECTION IS GIVEN, SUCH SHARES WILL BE VOTED FOR ALL PROPOSALS.

No. 1. Election of Directors

For All Nominees listed below  
(except as marked to the contrary  
nominees below)

WITHHOLD AUTHORITY  
to vote for all  
listed below

+-----+  
/ /  
/ /  
+-----+

+-----+  
/ /  
/ /  
+-----+

(INSTRUCTION: To withhold authority to vote for any individual nominee strike a line through the nominee's name in the list below.)

Raymond V. Damadian, Claudette J. V. Chan, Robert J. Janoff, Charles N. O'Data and Robert Djerejian.

No. 2. To ratify the adoption of (a) the Company's 2005 Incentive Stock Option Plan and (b) the Company's 2005 Stock Bonus Plan.

FOR

AGAINST

ABSTAIN

+-----+  
/ /  
/ /  
+-----+

+-----+  
/ /  
/ /  
+-----+

+-----+  
/ /  
/ /  
+-----+

No. 3. To ratify the selection of Marcum & Kliegman LLP as the Company's independent auditors for the fiscal year ended June 30, 2005.

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FOR	AGAINST	ABSTAIN
+-----+	+-----+	+-----+
/           /	/           /	/           /
/           /	/           /	/           /
+-----+	+-----+	+-----+

No. 4. In their discretion, the Proxies are authorized to vote upon such other business as may properly come before the meeting.

AUTHORITY GRANTED	AUTHORITY WITHHELD
+-----+	+-----+
/           /	/           /
/           /	/           /
+-----+	+-----+

Dated: \_\_\_\_\_, 2005

-----  
Signature

-----  
Signature if jointly held

Please sign your name(s) EXACTLY as your name(s) appear(s) on your stock certificate(s). All joint tenants must sign. When signing as attorney, executor, administrator, guardian or corporate officer, please provide your FULL title.

The Board of Directors requests that you fill in, date and sign the Proxy and return it in the enclosed envelope.

FONAR CORPORATION  
110 Marcus Drive  
Melville, New York 11747  
(631) 694-2929

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS  
June 6, 2005

To The Stockholders:

The Annual Meeting of the stockholders of Fonar Corporation will be held at the Wyndham Wilmington Hotel, 700 King Street, Wilmington, Delaware 19801, June 6, 2005, at 10:00 a.m. local time for the following purposes:

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1. To elect five Directors to the Board of Directors.
2. To ratify the adoption of (a) the Company's 2005 Stock Bonus Plan and (b) the Company's 2005 Incentive Stock Option Plan.
3. To ratify the selection of Marcum & Kliegman LLP as the Company's auditors for the fiscal year ended June 30, 2005.
4. To transact such other business as may properly come before the meeting.

Only stockholders of record at the close of business on April 20, 2005 are entitled to notice of, and to vote at, this meeting. A list of such stockholders will be available for examination by any stockholder for any purpose germane to the meeting, during normal business hours, at the principal office of the Company, 110 Marcus Drive, Melville, New York, for a period of ten days prior to the meeting.

Whether or not you expect to attend in person, we urge you to sign, date, and return the enclosed Proxy at your earliest convenience. Sending in your Proxy will not prevent you from voting your stock at the meeting if you desire to do so, as your Proxy is revocable at your opinion.

BY ORDER OF THE BOARD OF DIRECTORS

/s/ David B. Terry

David B. Terry, Vice President and  
Secretary

### PROXY STATEMENT FOR ANNUAL MEETING OF STOCKHOLDERS TO BE HELD JUNE 6, 2005

This proxy statement, which is first being mailed to shareholders on or about April 25, 2005, is furnished in connection with the solicitation of proxies by the Board of Directors of Fonar Corporation (the "Company"), to be voted at the annual meeting of the stockholders of the Company to be held at 10:00 a.m. on June 6, 2005 and any adjournment(s) thereof for the purposes set forth in the accompanying Notice of Annual Meeting of Stockholders. Stockholders who execute proxies retain the right to revoke them at any time prior to the exercise of the powers conferred thereby, by delivering a signed statement to the Secretary of the Company at or prior to the annual meeting or by executing another proxy dated as of a later date. The cost of solicitation of proxies is to be borne by the Company.

Only stockholders of record at the close of business on April 20, 2005 will be entitled to vote at the meeting. Shares of Common Stock are entitled to one vote per share, shares of Class B Common Stock are entitled to ten votes per share and shares of Class C Common Stock are entitled to twenty-five votes per share. At the close of business on April 30, 2005, there were 104,297,268 shares of Common Stock held of record by 4,595 stockholders, 3,953 shares of Class B Common Stock held of record by 10 stockholders and 9,562,824 shares of Class C Common Stock held of record by 4 stockholders. The shares of Class A Nonvoting Preferred Stock, 7,836,287 shares held of record by 3,952 stockholders at the close of business on April 30, 2005, are not entitled to vote.

Any proxy may be revoked at any time before it is exercised by delivery of a written instrument of revocation or a later dated proxy to the principal executive office of the Company or, while the meeting is in session, to the

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Secretary of the meeting, without, however, affecting any vote previously taken. The presence of a stockholder at the meeting will not operate to revoke his proxy. The casting of a ballot by a stockholder who is present at the meeting, however, will revoke his proxy, but only as to the matters on which the ballot is cast and not as to any matters on which he does not cast a ballot or as to matters previously voted upon.

Proxies received by management will be voted at the meeting or any adjournment thereof. EACH PROXY WILL BE VOTED IN ACCORDANCE WITH THE SPECIFICATIONS MADE THEREIN BY THE PERSON GIVING THE PROXY. TO THE EXTENT NO CHOICE IS SPECIFIED, HOWEVER, THE PROXY WILL BE VOTED FOR MANAGEMENT'S PROPOSALS. All of management's proposals have been unanimously approved by the Board of Directors.

### 1. ELECTION OF DIRECTORS AND MANAGEMENT INFORMATION

Five directors are to be elected at the annual meeting, to hold office until the next annual meeting of stockholders and until their successors are elected and qualified. It is intended that the accompanying proxy will be voted in favor of the following nominees to serve as directors unless the stockholder indicates to the contrary on the proxy. Management expects that each of the nominees will be available for election, but if any of them is not a candidate at the time the election occurs, it is intended that such proxy will be voted for the election of another nominee to be designated by the Board of Directors to fill any such vacancy.

#### DIRECTORS AND OFFICERS

Raymond V. Damadian, M.D. (age 69), a nominee for Director, has been the Chairman of the Board and President of FONAR since its inception and Treasurer since February, 2001. Dr. Damadian received an M.D. degree in 1960 from Albert Einstein College of Medicine, New York, and a B.S. degree in mathematics from the University of Wisconsin in 1956. In addition, Dr. Damadian conducted post-graduate work at Harvard University, where he studied extensively in the fields of physics, mathematics and electronics. Dr. Damadian is a 1988 recipient of the National Medal of Technology and in 1989 was inducted into the National Inventors Hall of Fame, for his contributions in conceiving and developing the application of magnetic resonance technology to medical applications including whole body scanning and diagnostic imaging. Dr. Damadian is also the director, President and Treasurer of the Company's subsidiary, Health Management Corporation of America ("HMCA").

Claudette J.V. Chan (age 67), a nominee for Director, has been a Director of FONAR since October 1987. Mrs. Chan has been employed since 1992 by HMCA and its predecessor, Raymond V. Damadian, M.D. MR Scanning Centers Management Company, as "site inspector," in which capacity she is responsible for supervising and implementing standard procedures and policies for MRI scanning centers. From 1989 to 1994 Mrs. Chan was employed by St. Matthew's and St. Timothy's Neighborhood Center, Inc., as the director of volunteers in the "Meals on Wheels" program, a program which cares for the elderly. She received a bachelor of science degree in nursing from Cornell University in 1960. Mrs. Chan is the sister of Raymond V. Damadian.

Robert J. Janoff (age 77), a nominee for Director, has been a Director of FONAR since February, 1989. Mr. Janoff has been a self-employed New York State licensed private investigator for more than thirty-five years and was a Senior Adjustor in Empire Insurance Group for more than 15 years until retiring from that position on July 1, 1997. Mr. Janoff also served, from June 1985 to June 1991, as President of Action Data Management Strategies, Ltd., a supplier of computer programs for use by insurance companies. Mr. Janoff is a member of the Board of Directors of Harmony Heights of Oyster Bay, New York, which is a

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nonprofit residential school for girls with learning disabilities.

Charles N. O'Data (age 69), a nominee for Director, has been a Director of FONAR since February, 1998. From 1968 to 1997, Mr. O'Data was the Vice President for Development for Geneva College, a liberal arts college located in western Pennsylvania. In that capacity, he acted as the College's chief investment officer. His responsibilities included management of the College's endowment fund and fund raising. In July 1997, Mr. O'Data retired from Geneva College after 36 years of service to assume a position of National Sales Executive for SC Johnson Company's Professional Markets Group (a unit of SC Johnson Wax), and specialized in healthcare and education sales, a position he held until the spring of 1999. Mr. O'Data presently acts an independent financial consultant to various entities. He founded The Beaver County Foundation, a Community Foundation, in 1992, and serves as its President. Mr. O'Data is listed as a finance associate in the Middle States Association Commission on Higher Education, which is the formal accrediting body for higher education in the eastern region of the country. In this capacity he evaluates the financial aspects of educational organizations. Mr. O'Data is a graduate of Geneva College, where he received a B.S. degree in Economics in 1958.

Robert Djerejian (73), a nominee for Director, has been a Director of Fonar since June, 2002. Since 1996 Mr. Djerejian has served as a senior consultant for Haines, Lundberg & Waehler International, an architecture, design and engineering firm, which among other specialties designs hospitals and laboratories. Prior to that time he was the senior managing partner of the firm. Mr. Djerejian serves on the Board of Trustees of Pratt Institute, where he is also Vice Chairman of the Executive Committee and on the Board of Directors of the Delaware College of Art and Design, of which he was one of the founding directors. He is a graduate of Pratt Institute, where he received a B.A. in Architecture in 1955.

David B. Terry (56) is the Senior Vice President of Administration and Secretary of the Company. Mr. Terry has been serving as Vice President since December 1998 and as Secretary since May, 1990. Previously, he served as Treasurer from May 1990 to December, 1998, as Secretary from July 1978 through June 1987 and as Treasurer from August 1981 through June 1987. From July 1978 through June 1987, he was also a Director of the Company. Mr. Terry is a brother in-law of Raymond V. Damadian.

### INFORMATION REGARDING THE BOARD AND ITS COMMITTEES

The five nominees will be elected to hold office for the ensuing year or until their respective successors are elected and qualified.

During the year ended June 30, 2004 the Board of Directors unanimously consented to take action in lieu of a meeting on seven occasions, and the audit committee met four times.

Dr. Damadian receives no cash compensation for serving on the Board. The other directors are each paid \$20,000 per year in their capacities as directors.

The Company's Board of Directors has an audit committee. There is no standing compensation committee or nominating committee.

In accordance with the Nasdaq Marketplace Rules, the Board of Directors adopted a written charter for the audit committee which took effect in June, 2001 and was revised on November 17, 2004. A copy of the revised charter is attached to his Proxy Statement. All of the directors on the audit committee are independent.

### AUDIT COMMITTEE

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The Audit Committee, which is comprised of independent directors, is governed by a Board approved charter that contains, among other things, the Committee's membership requirements and responsibilities. The audit committee oversees the Company's accounting, financial reporting process, internal controls and audits, and consults with management and the independent public accountants on, among other items, matters related to the annual audit, the published financial statements and the accounting principals applied. As part of its duties, the audit committee appoints, evaluates and retains the Company's independent public accountants. It also maintains direct responsibility for the compensation, termination and oversight of the Company's independent public accountants and evaluates the independent public accountants' qualifications, performance and independence.

Financial Expert on Audit Committee: The Board has determined that Mr. O'Data, who currently is a financial consultant and finance associate in the Middle States Association, and who previously was the Vice President for Development for Geneva College, is the audit committee financial expert. The Board made a qualitative assessment of Mr. O'Data's level of knowledge and experience based on a number of factors, including his formal education and experience.

### AUDIT COMMITTEE REPORT

The audit committee has (a) reviewed and discussed the audited financial statements with management, (b) discussed with the independent auditors the matters required to be discussed by SAS 61 and (c) has received the written disclosures and the letter from the independent accountants required by Independence Standards Board, Standard No. 1 and has discussed with the independent accountants the independent accountant's independence.

Based on the foregoing review and discussions, the audit committee recommended to the Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2004.

The members of the audit committee are Messrs. Charles N. O'Data, Robert J. Janoff and Mr. Robert Djerejian. Messrs. O'Data, Janoff and Djerejian are independent directors, as defined in the Nasdaq Market Place Rules.

### VOTE REQUIRED AND BOARD RECOMMENDATION

The directors will be elected by the vote of a plurality of the votes represented at the meeting. THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR ALL OF THE NOMINEES FOR DIRECTOR.

### INFORMATION REGARDING BENEFICIAL OWNERSHIP OF PRINCIPAL STOCKHOLDERS, DIRECTORS, AND MANAGEMENT

The following table sets forth information regarding the beneficial ownership of the Company's common shares by the nominees for directors, the Company's Chief Executive Officer, and the directors and executive officers as a group as of April 14, 2005.

Name and Address of Beneficial Owner (1)	Shares Beneficially Owned	Percent of Class
---	---------------------------------	---------------------

Raymond V. Damadian, M.D.  
c/o FONAR Corporation

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Melville, New York		
Director, President		
CEO, 5% + Stockholder		
Common Stock	2,488,274	2.39%
Class C Stock	9,561,174	99.98%
Class A Preferred	477,328	6.09%
Claudette Chan		
Director		
Common Stock	2,648	*
Class A Preferred	800	*
Robert J. Janoff		
Director		
Common Stock	80,000	*
Class A Preferred	1,999	*
Charles N. O'Data		
Director		
Common Stock	700	*
Robert Djerejian		
Director		
Common Stock	0	*
All Officers, Directors and Nominees		
as a Group (6 persons) (2) (3)		
Common Stock	2,588,843	2.48%
Class C Stock	9,561,174	99.98%
Class A Preferred	480,165	6.13%

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\* Less than one percent

1. Address provided for each beneficial owner owning more than five percent of the voting securities of the Company.

2. Includes 101 shares of the Company's Common Stock and 19 shares of the Company's Class A Non-voting Preferred Stock held by an officer jointly with his wife, and 192 shares of the Company's Common Stock and 38 shares of the Company's Class A Non-voting Preferred Stock held in trust by an officer for his children.

3. Includes options to purchase 16,928 shares of Common Stock held by an officer.

### CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

See Item 13, "Certain Relationships and Related Transactions" of the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2004 which is specifically incorporated by reference herein. A copy of the Form 10-K is included in the Annual Report to Stockholders which is being sent to the Company's stockholders with this Proxy Statement.)

The Company believes that each of the related transactions described therein were on terms at least as favorable to the Company as were available from non-affiliated parties.

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### COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS.

With the exception of the Chief Executive Officer, Dr. Raymond V. Damadian, the compensation of the Company's executive officers is based on a combination of salary and bonuses based on performance. The Chief Executive Officer's compensation consists only of a salary which has remained constant for more than the past three fiscal years. The Board of Directors does not have a compensation committee. Dr. Raymond V. Damadian, President, Chief Executive Officer and Chairman of the Board, is the only executive officer who is a member of the Board of Directors. Dr. Damadian participates in the determination of executive compensation for the Company's officers.

As noted above, the Company's compensation policy is primarily based upon the practice of pay-for-performance. Section 162(m) of the Internal Revenue Code imposes a limitation on the deductibility of nonperformance-based compensation in excess of \$1 million paid to the Chief Executive Officer. No officer of the Company received compensation in excess of \$1 million in fiscal 2002 or in any previous fiscal year. The Board currently believes that the Company should be able to continue to manage its executive compensation program for others so as to preserve the related federal income tax deductions.

The following table discloses compensation received for the three years ended June 30, 2004 by the Company's Chief Executive Officer.

Name and Principal Position Position	Year	Annual Compensation Salary	Other	Long-Term Compensation Awards	All Other Compensation
-----	----	-----	-----	-----	-----
Raymond V. Damadian	2004	\$86,799.99	0	0	0
Chairman of the;	2003	\$86,799.98	0	0	0
Board; President;					
Chief Executive					
Officer;	2002	\$86,799.96	0	0	0
Director					

#### Compensation Pursuant to Stock Options and SAR Grants

No stock options or stock appreciation rights were granted to the Company's Chief Executive Officer during fiscal 2004.

#### Option/SAR Exercises and Year End Values

No options or stock appreciation rights were exercised by the Company's Chief Executive Officer during fiscal 2004. The Company's Chief Executive Officer did not hold any unexercised stock options or stock appreciation rights at the end of fiscal 2004.

#### Performance Graph

The following graph compares the annual change in the Company's cumulative total shareholder return on its Common Stock during a period commencing on June 30, 1999 and ending on December 31, 2004 (as measured by dividing (i) the sum of (A) the cumulative amount of dividends for the measurement period, assuming dividend reinvestment and (B) the difference between the Company's share price at the end and the beginning of the measurement period; by (ii) the share price at the beginning of the measurement period) with the cumulative total return of each of: (a) the CRSP Total Return Index for Nasdaq U.S. companies ("Nasdaq"); (b) the CRSP Total Return Index for Nasdaq Medical Device Manufacturers ("Nas-MDM"); and (c) the CRSP Total Return Index for Nasdaq Health companies ("Nas-Hea.") during such period, assuming a \$100 investment on June 30, 1999. The stock price performance on the graph below is not necessarily indicative of future price performance.

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### Relative Dollar Values

	6/30/99	6/30/00	6/29/01	6/28/02	6/30/03	6/30/04	12/31/04
Fonar Common	-----	-----	-----	-----	-----	-----	-----
Stock	\$100.00	\$185.78	\$172.44	\$175.11	\$115.56	\$113.78	\$139.56
NASDAQ-US	\$100.00	\$147.86	\$80.32	\$54.72	\$60.70	\$76.51	\$81.43
NAS-Hea.	\$100.00	\$77.18	\$110.13	\$102.71	\$113.91	\$169.13	\$179.32
NAS-MDM	\$100.00	\$115.18	\$107.97	\$103.35	\$105.05	\$149.86	\$154.62

## 2. RATIFICATION OF STOCK OPTION AND STOCK BONUS PLANS

On February 14, 2005, the Board of Directors adopted the Company's 2005 Incentive Stock Option Plan (the "2005 Incentive Plan"), and the 2005 Bonus Plan (the "2005 Bonus Plan"). The stockholders are being asked to ratify the adoption of the 2005 Incentive Plan and 2005 Bonus Plan (collectively, the "Plans"). Approximately 525 people are eligible to receive awards under the Plans. The persons who will receive awards and the amount of the awards are not determinable.

The Plans were effective as of February 15, 2005. The 2005 Incentive Plan covers 2,000,000 shares of the Company's Common Stock; the 2005 Bonus Plan covers 3,000,000 shares of the Company's Common Stock. The 2005 Incentive Plan permits the granting of incentive stock options through February 14, 2015, in the discretion of the Incentive Stock Option Committee or the Board of Directors of the Company, to key employees of the Company and any of its subsidiaries. "Key employees" include all employees of the Company or any of its subsidiaries who render substantial services in management and administration, research and development, production, sales or marketing.

The 2005 Bonus Plan permits the granting of stock bonuses through February 14, 2015, in the discretion of the Stock Bonus Committee or the Board of Directors of the Company, to employees, directors, advisors and consultants for services rendered or to be rendered to the Company or any of its subsidiaries.

The purpose of the Plans is to enable persons performing valuable services for the Company to acquire a proprietary interest in the Company through the ownership of its Common Stock. Management believes that such ownership provides such persons with a more direct stake in the future welfare of the Company and encourages them to remain in the service of the Company or its subsidiaries and that the Plans will assist the Company in obtaining and retaining the services of such persons.

Restrictions may be imposed on resale (by officers, directors and 10% stockholders) of the shares of Common Stock purchased under the Plans by the provisions of Section 16 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). In addition, any participant who may be deemed an affiliate of the Company, as defined by the Securities and Exchange Commission, may be required to utilize a separate prospectus to reoffer or resell such shares unless an exemption is applicable. The provisions of the 2005 Incentive Plan do not impose any restrictions on the resale of shares. The Stock Bonus Committee or Board of Directors may impose restrictions on shares of Common Stock issued pursuant to the 2005 Bonus Plan.

### THE PLANS

The following is a summary of certain provisions of the Plans. The summary does not purport to be complete and is qualified in its entirety by reference to the provisions of the Plans. Copies of the 2005 Incentive Plan and 2005 Bonus Plan are attached hereto as Exhibit B.

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The Plans are administered by Committees appointed by the Board of Directors of the Company, consisting of individuals who serve at the discretion of the Board and who are eligible to receive options under the 2005 Incentive Plan and stock bonus under the 2005 Bonus Plan. In the absence of any Committees, the Plans will be administered directly by the Board of Directors. The Committees determine, among other things, who will receive options or stock bonuses, when the options or stock bonuses will be received, the number of shares underlying each option or stock bonus, the term of each option, the date each option will become exercisable in whole or in part and the exercise price for the shares of Common Stock underlying each option. The two members of the Committees are officers of the Company, and Dr. Raymond V. Damadian, one of the members of the Committees, is also Chairman of the Board of Directors and the principal stockholder of the Company.

Options granted under the Incentive Plan are in the form of "incentive stock options," as defined in Section 422 of the Internal Revenue Code (the "Code"). The exercise price for the shares of Common Stock underlying an option granted pursuant to the Incentive Plan may not be less than the fair market value of the Common Stock on the date the option is granted, except if the option is granted to an employee who, at the time of the grant of such option, is the owner of more than 10% of the total combined voting power of all classes of stock of the Company or any of its subsidiaries, the exercise price for the shares of Common Stock underlying the option may not be less than 110% of the fair market value of the Common Stock on the date the option is granted. The aggregate fair market value of shares of Common Stock as to which options may be exercised by an employee in any calendar year under the Incentive Plan and any other plans of the Company and its subsidiaries providing for the grant of options qualifying as "incentive stock options," as defined in Section 422 of the Code, may not exceed \$100,000. Any incentive stock option granted to an employee who, at the time of the proposed grant, owns more than 10% of the total combined voting power of all classes of stock of the Company or any of its subsidiaries, must expire no later than five years after the date of grant. All other incentive stock options must expire no later than ten years after the date of grant.

Options granted under the Incentive Plan may be exercised by the employee only during his lifetime and during his continued employment with the Company except that any option granted to an employee who voluntarily terminates his employment with the written consent of the Company or whose employment is involuntarily terminated will expire three months after the cessation of employment. If employment terminates by reason of retirement, an option granted under the 2005 Incentive Plan is exercisable by the recipient, to the extent exercisable, for a period of three months from the date of retirement. If employment terminates by reason of disability, an option granted under the 2005 Incentive Plan is exercisable by the recipient, at any time, for a period of one year from the date of disability. Options are not assignable except by will or the law of descent and distribution. If employment terminates by reason of death, an option granted under the 2005 Incentive Plan is exercisable by his legal representatives, at any time, for a period of six months from the date of death. Notwithstanding the above, an option will not be exercisable after the expiration of the term of the option.

Bonus stock awards granted under the 2005 Bonus Plan are not assignable except by will or the laws of descent and distribution.

Upon exercise of an option under the 2005 Incentive Plan, the full exercise price of the number of shares purchased must be paid by certified or bank cashier's check, shares of Common Stock of the Company, or any other form of consideration acceptable to the Committee. Partial exercise of an option is permitted under the 2005 Incentive Plan. In no event may a fraction of a share be purchased or issued under the 2005 Incentive Plan.

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The 2005 Incentive Plan will remain in effect until the earlier of such time as all shares covered by the 2005 Incentive Plan have been issued or transferred from treasury upon exercise of options, or through February 14, 2015. No options may be granted under the 2005 Incentive Plan after those dates although previously outstanding options may be exercised until their expiration dates. The 2005 Bonus Plan will remain in effect until the earlier of such time as all shares covered by the 2005 Bonus Plan have been issued or through February 14, 2015, and no stock bonuses may be granted under the 2005 Bonus Plan after that date. Common Stock covered by the Plans may be either treasury shares or authorized and unissued shares.

The Board of Directors has the right to amend, suspend or terminate the Plans at any time, except that it may not, without stockholder approval, increase the maximum number of shares covered by the 2005 Incentive Plan or 2005 Bonus Plan, reduce the minimum option price under the 2005 Incentive Plan or change the maximum period during which options may be exercised under the 2005 Incentive Plan.

In the event of stock dividends, stock splits and similar changes involving the Common Stock of the Company, the Committees shall take such action as in their judgment is necessary to preserve to the holders of options rights substantially proportionate to the rights existing prior to such event. In the event of any such change, the Committees may provide for an increase or decrease in the number of shares of Common Stock subject to options outstanding under the 2005 Incentive Plan and the aggregate number of shares of Common Stock available under the 2005 Incentive or 2005 Bonus Plans. With respect to the 2005 Incentive Plan, no action may be taken by the Incentive Stock Option Committee which, in its judgment, would constitute a modification, extension or renewal of the option (within the meaning of Section 425(h) of the Code), or would prevent the option from qualifying as an "incentive stock option" (within the meaning of Section 422 of the Code). The determination of the Committees will be conclusive and binding upon the participants in the Plans.

The Plans are not subject to any provisions of the Employee Retirement Income Security Act of 1974, as amended, nor do the Plans qualify under Section 401(a) of the Code.

### Federal Income Tax Consequences

**Incentive Stock Options.** The grant of an incentive stock option will have no immediate tax consequences for the Company or the employee. If the employee exercises an incentive stock option and does not dispose of the acquired shares within two years after the grant of the incentive stock option or within one year after the date of the transfer of such shares to him ("disqualifying disposition"), he will not realize any compensation income, gain or loss until a subsequent disposition of such shares. For purposes of the alternative minimum tax, however, the amount by which the fair market value of the acquired shares at the time of exercise exceeds the option price will be an item of tax preference.

If an employee makes a disqualifying disposition, he will be required to include in income, as compensation, the lesser of (i) the difference between the option price and the fair market value of the acquired shares (on the exercise date or, in the case of certain optionees who are officers or directors subject to the profit recapture provisions of Section 16(b) of the Exchange Act, six months thereafter) and (ii) the amount of gain realized. In addition, depending upon the amount received as a result of such disposition, the employee may realize capital gain or loss.

The Company will be entitled to a deduction (provided applicable withholding or reporting requirements are met) at the same time and in the same amount as the employee is in receipt of compensation income as a result of a disqualifying

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disposition. If there is no disqualifying disposition, no deduction will be available to the Company.

Stock Bonuses. The grant of stock bonuses under the 2005 Bonus Plan will result in compensation to the employee which must be recognized as ordinary income on the date the stock bonus is granted. The amount of income will be the fair market value of the stock on the date the stock bonus is granted. The Company will be entitled to a deduction (provided applicable withholding or reporting requirements are met) for Federal income tax purposes at the same time in the same amount as the employee is required to recognize income.

Upon a subsequent sale or taxable exchange of the shares acquired as a result of stock bonuses, an employee will realize long or short-term capital gain or loss equal to the difference between the amount realized on the sale and the amount of income recognized on the grant of the stock bonus (his tax basis).

The foregoing is only a brief summary of the applicable federal income tax laws and should not be relied upon as being a complete statement. The federal tax laws are complex, and they are subject to legislative changes and new or revised judicial or administrative interpretations. In addition to the federal income tax consequences described herein, the grant of options under the Plans or the receipt of shares upon exercise thereof may also have significant state and local tax consequences.

The affirmative vote of shares holding a majority of the votes represented at the meeting is required to ratify the adoption of the Plans. THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE PROPOSAL.

### 3. RATIFICATION OF SELECTION OF AUDITORS

The Board of Directors has selected Marcum & Kliegman LLP, as the Company's independent auditors for the fiscal year ending June 30, 2005. The stockholders will be asked to ratify this action by the Board. Marcum & Kliegman LLP were the Company's auditors for the fiscal years ended June 30, 2002, June 30, 2003 and June 30, 2004.

Grassi & Co., CPA's, P.C. were the Company's auditors for the fiscal year ended June 30, 2001. The Company changed accounting firms when the individual accountants handling the Company's matters moved to Marcum & Kliegman LLP. The Company's previous auditors, Tabb, Conigliaro & McGann, P.C., merged into Grassi & Co., CPAs, P.C. Tabb, Conigliaro & McGann were the Company's auditors for the fiscal years ending June 30, 1990 through June 30, 2000.

One or more representatives of Marcum & Kliegman LLP, are expected to be present at the Meeting with the opportunity to make a statement if they desire to do so, and to be available to respond to appropriate questions.

The affirmative vote of shares holding a majority of the votes represented at the meeting is required to ratify the selection of auditors by the Board of Directors. THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE PROPOSAL.

### AUDIT FEES

The aggregate fees billed by Marcum & Kliegman LLP for the audit of the Company's annual financial statements for the fiscal year ended June 30, 2004 and the reviews of the financial statements included in the Company's Forms 10-Q for the fiscal year ended June 30, 2004 were \$524,731.

The aggregate fees billed by Marcum & Kliegman for the audit of the Company's annual financial statements for the fiscal year ended June 30, 2003 and the reviews of the financial information included in the Company's Forms 10-Q for the fiscal year ended June 30, 2003 were \$460,805.

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All work on the audits in each of the last two fiscal years was performed by full-time permanent employees of Marcum & Kliegman LLP.

### AUDIT-RELATED FEES

No audit-related fees were billed by Marcum & Kliegman LLP for the fiscal years ended June 30, 2004 and June 30, 2003.

### TAX FEES

The aggregate fees billed by Marcum & Kliegman LLP for tax compliance, tax advise and tax planning in the fiscal year ended June 30, 2004 and June 30, 2003 were \$172,542 and \$189,094.

The aggregate fees billed by Grassi & Co., CPAs, P.C. for tax compliance, tax advise and tax planning in the fiscal year ended June 30, 2002 were \$194,922.

### ALL OTHER FEES

The aggregate fees billed by Marcum & Kliegman LLP for all other services rendered by them during the fiscal years ended June 30, 2004 and June 30, 2003 were \$111,452 and \$124,417, respectively, which included services in connection with the registration of securities and the accounting consequences of other possible corporation transactions.

Since January 1, 2003, the audit committee has adopted policies and procedures for pre-approving all non-audit work performed by its auditors. Specifically, the committee must pre-approve the use of the auditors for all such services.

The Company's audit committee believes that the provision by Marcum & Kliegman LLP of services in addition to audit services in fiscal 2004 and 2003 were compatible with maintaining their independence. The services to be performed are presented by Marcum & Kliegman LLP to the committee or its chairman. The matter is then evaluated and a decision made.

### PROPOSALS OF STOCKHOLDERS

Proposals of stockholders intended to be presented at the 2006 annual meeting of stockholders must be received by the Company no later than February 10, 2006 to be included in the Company's proxy statement and form of proxy related to that meeting.

### SOLICITATION OF PROXIES

The proxy accompanying this Proxy Statement is solicited by the Board of Directors of the Company. Proxies may be solicited by officers, directors, and regular supervisory and executive employees of the Company, none of whom will receive any additional compensation for their services. Such solicitations may be made personally, or by mail, e-mail, facsimile, telephone, telegraph, or messenger. The Company will pay persons holding shares of common stock in their names or in the names of nominees, but not owning such shares beneficially, such as brokerage houses, banks, and other fiduciaries, for the expense of forwarding solicitation materials to their principals. All of the costs of solicitation of proxies will be paid by the Company.

### VOTING TABULATION

The election of the Company's directors requires a plurality of the votes represented in person or by proxy at the meeting. The ratification of the Plans and the selection of auditors requires the affirmative vote of a majority of the votes represented in person or by proxy at the meeting. Votes cast by proxy or

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in person at the meeting will be tabulated by the Company.

A stockholder who abstains from voting on any or all proposals will be included in the number of shareholders present at the meeting for the purpose of determining the presence of a quorum. Abstentions will not be counted either in favor of or against the election of the nominees or other proposals. Under the rules of the National Association of Securities Dealers, brokers holding stock for the accounts of their clients who have not been given specific voting instructions as to a matter by their clients may vote their clients' proxies in their own discretion. Where a proposal requires a majority of the votes present for its passage, an abstention or non-vote will have the same effect as a negative vote.

### OTHER MATTERS

The Board of Directors does not intend to bring any other business before the meeting, and so far as is known to the Board, no matters are to be brought before the meeting except as specified in the notice of the meeting. However, as to any other business which may properly come before the meeting, it is intended that proxies, in the form enclosed, will be voted in respect thereof in accordance with the judgment of the persons voting such proxies.

DATED: Melville, New York, May 11, 2005

A COPY OF THE COMPANY'S FORM 10-K REPORT FOR FISCAL YEAR 2004, CONTAINING INFORMATION ON OPERATIONS, FILED WITH THE SECURITIES AND EXCHANGE COMMISSION, IS AVAILABLE UPON REQUEST. PLEASE WRITE TO:

INVESTOR RELATIONS DEPARTMENT  
FONAR CORPORATION  
110 MARCUS DRIVE  
MELVILLE, NEW YORK 11747

### EXHIBIT A

#### FONAR CORPORATION

#### REVISED AUDIT COMMITTEE CHARTER

This Audit Committee Charter, as most recently revised, adopted by the Board of Directors (the "Board") of Fonar Corporation (the "Company").

#### 1. PURPOSE

The Audit Committee (the "Committee") shall assist the Board of Directors (the "Board") in fulfilling its responsibility to oversee (i) management's conduct of: the Company's financial reporting, including by overseeing the integrity of the financial reports and other financial information provided by the Company to any governmental or regulatory body, the Company's securityholders and other users thereof; (ii) management's establishment and conduct of the Company's systems of internal accounting and financial controls, including the Company's internal audit function; (iii) the qualifications, engagement, compensation, independence and performance of the Company's independent auditors, the conduct of the annual audit and any other audit, attest or review services, and the engagement of the independent auditors to provide any non-audit services; (iv) the preparation of the audit committee report required by U.S. Securities and Exchange Commission ("SEC") rules; (v) the Company's legal and regulatory compliance; and (vi) the Company's codes of conduct, as established by management and the Board. The Committee's role shall apply equally with respect to any subsidiary of the Company (including any partnership or joint venture)

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whose financial results are consolidated with the financial results of the Company and any other subsidiary which is directly or indirectly controlled by the Company and also with respect to any separate financial reports of any such subsidiary.

In discharging its role, the Committee is empowered to investigate any matter that comes to its attention and shall have access to all books, records, facilities and personnel of the Company which are necessary in order for the Committee to perform its duties hereunder. The Committee has the power to retain legal counsel, auditors or other experts as it determines appropriate to carry out its role and responsibilities and shall be provided adequate funding from the Company to engage such advisors and for the administration of the Committee's affairs. The Company shall compensate the independent auditor for its audit, review and attest services as determined and directed by the Committee.

The Committee shall report regularly to the Board on the Committee's activities, including all actions taken by the Committee on behalf of the Company and on any material issues that arise with respect to the quality or integrity of the Company's financial statements, the performance and independence of the independent auditor, the performance of the internal audit function, the Company's compliance with legal or regulatory requirements and the adequacy of and compliance with the Company's codes of conduct to the extent such codes of conduct relate to the duties and purposes of the Audit Committee as described herein and any other matters the Committee reasonably deems appropriate in connection with the performance of its duties hereunder or which the Board requests. The Committee shall report to the Board at least annually on its expenses, including the compensation of the independent auditor.

### II. COMMITTEE MEMBERSHIP

The Committee shall consist of three or more members of the Board, as shall be determined by the Board, each of whom has been determined by the Board to be "independent" in accordance with the applicable listing standards of the NASD. All members of the Committee shall meet the applicable financial literacy requirements of the NASD and at least one member shall be an "audit committee financial expert" as such term is defined under applicable SEC rules. No member of the Committee may serve on the audit committee of more than three public companies, including the Company, unless the Board of Directors has determined that such simultaneous service would not impair the ability of such member to effectively serve on the Committee.

### III. COMMITTEE MEETINGS; SUBCOMMITTEES

The Committee shall meet on a regularly-scheduled basis at least four times per year or more frequently as circumstances dictate. The Committee's meetings shall include, on at least a quarterly basis, an executive session with the independent auditor to provide the opportunity for full and frank discussion of the Company's financial reporting without any member of senior management present, except for the Company's General Counsel if the Committee so desires.

### IV. RESPONSIBILITIES AND FUNCTIONS

The Committee's role is one of oversight. The Committee's primary responsibility relates to the Company's financial reporting and its other responsibilities and functions as stated herein, while important in their own right, are ancillary to the accurate and complete presentation of the Company's financial position and prospects. The Company's management is responsible for preparing the Company's financial statements, for assuring the Company's compliance with its legal and regulatory obligations and for the adherence by Company personnel with the Company's business policies and codes of conduct. The Company's independent auditor is responsible for auditing the Company's financial statements and

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assessing the adequacy of the Company's internal controls. The Company's management and independent auditor have more knowledge and detailed information about the Company, greater expertise in financial reporting, internal control matters, the legal and regulatory obligations of the Company and the details of the Company's codes of conduct and business policies, and greater opportunity to analyze financial reporting issues facing the Company than do Committee members. Consequently, in carrying out its oversight responsibilities, the Committee does not provide any expert or special assurance as to the Company's financial statements, internal controls, legal compliance or adherence to its codes of conduct and business policies or any professional certification as to the independent auditor's work.

The following functions of the Committee are specified as a guide, with the understanding that the Committee will exercise its judgment in determining the specific activities the Committee may undertake at any time and in its activities may diverge from this guide as appropriate given the circumstances. The Committee is authorized to carry out these and such other functions and responsibilities as are assigned by the Board from time to time and to take any actions reasonably related to the Committee's responsibilities as mandated by this Charter.

To fulfill its purpose, the Committee shall:

1. appoint, subject to ratification of the appointment by the shareholders, and, if appropriate, dismiss the accounting firm which shall audit the Company's annual financial statements and any other accounting firm which shall provide to the Company any other audit, attest or review services (each of which shall be considered an "independent auditor" for purposes for this Charter), and evaluate the performance, determine the compensation and oversee the work of the independent auditors; the independent auditors shall report directly to the Committee and the Committee shall resolve any disagreement between management and the independent auditors regarding financial reporting. In connection with the appointment of the Company's independent auditors, the Committee shall on an annual basis:
  - (a) receive and review a formal written statement from the accounting firm to be retained as the Company's independent auditor delineating all relationships between the accounting firm and the Company (consistent with Independence Standards Board Standard No. 1 and any additional or successor standard established by the Public Company Accounting Oversight Board) and also delineating any services the accounting firm has provided to the Company's chief executive, chief financial and chief accounting officer; the Committee shall actively engage in a dialogue with such accounting firm with respect to any disclosed relationships or services that may impact the objectivity and independence of the accounting firm and take appropriate action in response to the accounting firm's report to satisfy itself of the auditor's independence;
  - (b) consider whether, in the interest of assuring continuing independence of the independent auditor, the Company should regularly rotate the accounting firm that serves as its independent auditor;
  - (c) set clear policies with respect to the Company's hiring of employees or former employees of the independent auditors;
  - (d) receive and review a report from the independent auditors describing:
    - (i) such firm's internal quality-control procedures and (ii) any material issues raised by the most recent internal quality-control review, peer review, or Public Company Accounting Oversight, Board Review of such firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five

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years, regarding one or more independent audits carried out by the firm, and any steps taken to deal with any such issues;

2. review and approve any auditing and non-auditing services to be provided by the Company's independent auditors, including the adoption by the Committee of any policies and procedures detailing services which the independent auditors are permitted to provide to the Company without specific advance approval by the Committee, if any, except that if services rendered by the auditors were not recognized as non-audit services at the time of the independent auditor's engagement, such services shall be promptly brought to the attention of the Committee and approved by the Committee prior to the completion of the audit.
3. review and discuss with management and the independent auditor on a regular basis: (i) the adequacy of the Company's internal and disclosure controls and procedures, including computerized information system disclosure controls and procedures and security; (ii) any significant deficiencies or material weaknesses in the design or operation of the Company's internal controls which could adversely affect the Company's ability to record, process, summarize and report financial data that are reported to the Committee; (iii) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls that are reported to the Committee; and (iv) any findings and recommendations of the independent auditor with regard to such matters, together with management's responses;
4. review and discuss with management, including the chief financial officer and chief accounting officer, and the independent auditor (i) any significant audit findings during the year, including the status of previous audit recommendations; (ii) any audit problems or difficulties encountered in the course of the auditor's work, including any restrictions on the scope of activities or access to required information; (iii) any changes required in the scope of the audit plan; (iv) the audit budget and staffing; and (v) the coordination of audit efforts in order to monitor completeness of coverage, reduction of redundant efforts, and the effective use of audit resources;
5. review and discuss with management and the independent auditor accounting policies that may be viewed as critical; review and discuss significant changes in Company accounting policies and any accounting and financial reporting proposals (including changes in generally accepted accounting principles) that may have a material impact on the Company's financial reports; inquire as independent auditor's view of the accounting treatment related to significant new Company transactions or other significant matters or events not in the ordinary course of the Company's business and inquire as to the independent auditor's views about whether Company accounting principles as applied are conservative, moderate, or aggressive from the perspective of income, asset, and liability recognition, and whether or not those principles reflect common or minority practices;
6. review and discuss with management and the independent auditor any financial or non-financial arrangements that do not appear in the financial statements of the Company but are material to the Company's financial position or performance; and review, discuss with management and the independent auditor, and approve, any transactions or courses of dealing with related parties (e.g., including significant shareholders of the Company, directors, corporate officers or other members of senior management or their family members) that are material in size or involve terms or other aspects that differ from those that would likely be negotiated with independent parties, as determined by the Committee to warrant review by the Committee;

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7. review and discuss with the independent auditor: (i) any accounting adjustments that were noted or proposed by the independent auditor but were "passed" (as immaterial or otherwise), (ii) any communications between the audit team and the audit firm's national office respecting auditing or accounting issues presented by the engagement and (iii) any "management" or "internal control" letter issued, or proposed to be issued, by the independent auditor to the Company;
8. review and discuss with management, including the chief financial officer and chief accounting officer, and the independent auditor any significant risks or exposures to which the Company is subject and assess the Company's underlying policies with respect to risk assessment and risk management and the steps management has taken to minimize risks;
9. review the Company's financial statements, including: (i) prior to public release, reviewing and discussing with management and the independent auditor the Company's annual and quarterly financial statements to be filed with the SEC, including (a) the Company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations", (b) the certifications regarding the financial statements or the Company's internal accounting and financial controls and procedures and disclosure controls or procedures filed with SEC by the Company's chief executive and financial officers and personnel and any qualifications thereon, (c) the matters required to be discussed with the independent auditor by Statement of Auditing Standards No. 61 or No. 71; (ii) with respect to the independent auditor's annual audit report and certification, before release of the annual audited financial statements, meet separately with the independent auditor without any management member present and discuss the independent auditor's assessment of the adequacy of the Company's system of internal accounting and financial controls and the appropriateness of the accounting principles used in and the judgments made in the preparation of the Company's audited financial statements and the quality of the Company's financial reports; (iii) also in connection with the release of the Company's audited annual financial statements, meet separately with management and the Company's financial personnel and discuss management's evaluation of the adequacy of the Company's system of internal accounting and financial controls and the appropriateness of the accounting principles used in and the judgments made in the preparation of the Company's audited financial statements and the quality of the Company's financial reports; (iv) make a recommendation to the Board of Directors regarding the inclusion of the audited annual financial statements in the Company's Annual Report on Form 10-K to be filed with the SEC; and (v) prior to submission to any governmental authority of any financial statements of the Company with the SEC, review such financial statements and any report, certification or opinion thereon provided by the independent auditor;
10. discuss with management and the independent auditor, as appropriate, earnings press releases and financial information and earnings guidance provided to analysts and to rating agencies;
11. establish and maintain procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters;
12. review periodically with the General Counsel: (i) legal and regulatory matters that may have a material impact on the Company's financial statements and (ii) the scope and effectiveness of the Company's legal compliance policies and programs;
13. receive and act upon any reports of a material violation of law received from any attorney for the Company in accordance with the SEC's Rule of

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- practice, any reports from legal counsel appointed or retained, with the authorization of the Committee, to investigate any such report and any reports of the General Counsel on any proceeding relating to such reports;
14. review periodically with management the adequacy of the Company's codes of conduct (including the Company's policies and procedures concerning trading in Company securities and use in trading of proprietary or confidential information) and the compliance therewith by Company personnel and review and approve any waivers sought under such codes with respect to directors, executive officers and senior financial officers) but any waiver reviewed by the Committee shall be reported by the Committee to the Board and approval of the Board as well shall be required for any such waiver to any officer who is a member of the Board;
  15. review and advise the Board with respect to the appointment, r reassignment, replacement or dismissal of the chief financial officer and chief accounting officer and other financial or accounting personnel and consult with the Compensation Committee, if any, regarding any reduction in the salary or benefits of, the terms of participation in any incentive compensation program by and any discretionary bonus or incentive award to the chief financial officer and chief accounting officer;
  16. prepare a report to be included in the Company's annual proxy statement stating whether or not the Committee: (i) has reviewed and discussed the Company's audited financial statements with management; (ii) has discussed with the independent auditor the matters required to be discussed by SAS No. 61 and 90; (iii) has received the written disclosure and letter from the independent auditor (delineating all relationships such firm has with the Company) and has discussed with such firm its independence; and (iv) based on the review and discussions referred to above, the members of the Committee recommended to the Board that the audited financials be included in the Company's Annual Report on Form 10-K for filing with the U.S. Securities and Exchange Commission;
  17. conduct an annual self-evaluation of the performance of the Committee, including its compliance with this Charter, and review and reassess the adequacy of this Charter; and
  18. maintain minutes and other records of Committee meetings and activities.

### EXHIBIT B

#### 2005 INCENTIVE STOCK OPTION PLAN

2,000,000 SHARES

FONAR CORPORATION

#### 1. Purposes of the Plan.

The purpose of this Plan (the "Plan"), which is designed to qualify as an "incentive stock option plan" under section 422A of the Internal Revenue Code of 1954, as amended (the "Code"), is to assist Fonar Corporation, a Delaware corporation (the "Corporation"), and its subsidiaries (as hereinafter defined) in attracting and retaining key employees and to secure for the Corporation and its subsidiaries the benefits of the incentive inherent in ownership of the Corporation's equity securities by employees who are responsible for the continuing growth and success of the Corporation and its subsidiaries. The Plan provides a means by which such employees may be given an opportunity, as an incentive to service or continued service with the Corporation or a subsidiary,

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to purchase shares of the Common Stock of the Corporation upon the exercise of options designed to qualify as "incentive stock options" under Section 422A of the Code.

For the purposes of this Plan, the term "subsidiary" and/or "subsidiaries" shall have the same meaning as the term "subsidiary corporation" defined in section 425 (f) of the Code, as from time to time amended, and shall include specifically Health Management Corporation of America.

### 2. Shares Subject to the Plan.

Subject to the provisions of Section 13 of the Plan, an aggregate of 2,000,000 shares of Common Stock, par value \$.0001 per share, of the Corporation ("Common Stock"), are available for the issuance upon the exercise of options under the Plan.

The shares to be issued upon the exercise of options under the Plan may be authorized but unissued shares of Common Stock or issued shares of Common Stock which are held in the treasury of the Corporation. If an option shall expire or terminate for any reason without having been exercised in full, the unpurchasable shares which were subject thereto shall, unless the Plan shall have been terminated, be added to the shares otherwise available for options under the Plan.

### 3. Term of the Plan.

Subject to the provisions of Section 14 and 15, the Plan shall commence effective as of February 15, 2005, and options granted under the Plan must be granted no later than February 14, 2015.

### 4. Administration of the Plan.

The Plan shall be administered by a committee which shall consist of one or more members, as the Board of Directors shall from time to time determine, who shall be appointed by the Board of Directors of the Corporation (the "Committee") or, in the absence of such a Committee, by the Board of Directors of the Corporation. Directors of the Corporation who are either eligible to receive options, or to whom options have been granted, may vote on any matters affecting the administration of the Plan or the granting of options under the Plan; provided, however, that no Director shall vote upon the granting of an option to himself, but any such Director may be counted in determining the existence of a quorum at any meeting of the Board of Directors at which the Plan is administered or action is taken with respect to the granting of an option. Any action of the Committee or the Board of Directors may be taken by a written instrument signed by all of the members of the Committee or the Board of Directors, as the case may be, and any action so taken by written consent shall be as fully effective as if it had been taken by a majority of the members at a meeting duly held and called.

Subject to the express provisions of the Plan, the Committee or the Board or Directors, as the case may be, shall have the authority, in its discretion: (i) to determine the individuals to receive options, the times when they shall receive them, the number of shares to be subject to each option, the exercise price for shares of Common Stock subject to each option, the term of each option, the date each option shall become exercisable in whole, in part or in installments, and, if in installments, the number of shares to be subject to each installment, the date each installment shall become exercisable and the term of each installment: to accelerate the date of exercise of any installment; to determine whether shares may be issued upon exercise of an option as partly paid and, if so, the date when future installments of the exercise price shall become due and the amounts of such installments, and to determine the other terms and provisions of each option granted under the Plan; (ii) to construe and

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interpret the terms of the respective option certificates and the Plan; (iii) to establish, amend and rescind rules and regulations for the administration of the Plan; and (iv) to make all other determinations deemed necessary or advisable for administering the Plan. The determinations of the Committee or the Board of Directors, as the case may be, on the matters referred to in this Section 4 shall be final and conclusive.

### 5. Eligibility and Selection.

Only key employees (including employees who are officers and directors) of the Corporation or of any of its subsidiaries are eligible to receive options under the Plan. For the purposes of the Plan, the term "key employees" shall mean and include all employees of the Corporation or any of its subsidiaries who render substantial services to the Corporation in the management, administration or supervision of the business or affairs of the Corporation or any of its subsidiaries or are engaged in the research, development, production, sale, marketing, or promotion of the products or services of the Corporation or any of its subsidiaries. Directors of the Corporation who are not employees of the Corporation or a subsidiary are not eligible to receive options under the Plan. In determining the employees to whom options shall be granted under the Plan and the number of shares of Common Stock as to which options may be granted to such an employee, the Committee or the Board of Directors, as the case may be, shall consider the duties of the employees, their present and potential contributions to the success of the business of the Corporation, and such other factors as the Committee or the Board of Directors deems relevant in furthering the purposes of the granting of such options and the interests of the Corporation. An employee may receive more than one option under the Plan.

### 6. Incentive Stock Options.

(a) Each option ("Option") may be evidenced by a written Incentive Stock Option Certificate (the "Certificate"); provided that to the extent permitted by law and consistent with the terms and conditions of the Plan and the Option, the Board of Directors may make such modifications in the terms and conditions of the Option as the Board shall deem necessary or advisable, or as may be required in order that the Option evidenced by the Certificate be an "incentive stock option".

(b) Each Option under the Plan (i) shall specify the exercise price per share of Common Stock, which shall not be less than the fair market value of the Common Stock of the Company on the date on which such Option is granted, provided that the exercise price per share of any Option granted to an individual who, at the time such option is granted, is the owner of stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Corporation shall not be less than 110% of the fair market value of a share of the Common Stock of the Corporation on the date on which such Option is granted; (ii) shall be exercisable during a period no later than ten (10) years after the date on which it is granted, as determined by the Committee or the Board of Directors at the time of grant; provided that any Option granted to any person who, at the time such Option is granted, is the owner of stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Corporation, must expire no later than five (5) years after the date of grant of the Option; (iii) shall be exercisable at such time or times as may be determined by the Committee or the Board of Directors at the time of grant, provided that an Option shall become immediately exercisable as to all shares subject to the Option upon the death or "disability" (as defined in Section 13) of the holder of the Option; (iv) shall not be transferable by the holder of the Option (other than by will or the laws of descent and distribution), and shall be exercisable during the lifetime of the holder of the Option only by such holder; and (v) shall contain such other terms and conditions or be in such other form as may be determined by the Committee or the Board of Directors at the time of grant, provided that such

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other terms and conditions shall be permitted by law, shall not be inconsistent with the Plan and shall not prevent the Option from qualifying as an "incentive stock option" under Section 422A of the Code. To the extent permitted by law, and without limitation to the foregoing, the Board of Directors may make such modifications in the provisions of any particular Option under the Plan as it shall deem advisable or as may be required in order that the Option may qualify as an "incentive stock option" under section 422A of the Code.

### 7. Exercise Price.

The exercise price for each share of Common Stock issuable upon the exercise of an Option granted under the Plan shall not be less than the fair market value (or, in the case of an Option granted to any person who, at the time of the grant of such Option, is the owner of more than ten percent (10%) of the total combined voting power of all classes of stock of the Corporation or any of its subsidiaries, not less than 110% of the fair market value) of a share of Common Stock at the time of granting of the Option, as determined by the Committee or the Board of Directors, provided that the method of determination shall not be inconsistent with any regulations applicable to "incentive stock options" which may be promulgated by the Internal Revenue Service or the Secretary of the Treasury.

### 8. Term of Options.

Options under the Plan shall be exercisable as shall be determined by the Committee or the Board of Directors, as the case may be, at the time of grant; provided that Options granted hereunder shall be exercisable for a period not exceeding ten (10) years from the date such Option is granted, and provided that any Option granted to any person who, at the time such Option is granted, is the owner of stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Corporation or any of its subsidiaries shall be exercisable for a period not exceeding five (5) years from the date such Option is granted. Options shall be subject to earlier termination as hereinafter provided.

### 9. Exercise of Options.

Each Option shall be exercised, in whole or in part, as to such number of shares of Common Stock and at such time or times as the Committee or the Board of Directors shall have determined at the time of grant. Except as provided in Sections 10 and 11 hereof, an Option may only be exercised if the holder is at the time of exercise in the employ of the Corporation or a subsidiary of the Corporation. Options shall be exercised only by the holder at the Corporation's principal office, or at such other office as may be designated by the Corporation, specifying the number of shares purchased and accompanied by payment in full by certified or bank cashier's check, shares of Common Stock of the Corporation owned by the holder of the Option (or by any other property, or in any other form, acceptable to the Committee or the Board of Directors, as the case may be.) Certificates representing the shares of stock purchased upon exercise shall be issued as promptly as practicable thereafter. The holder of an Option shall not have any of the rights of a stockholder of the Corporation with respect to the shares of Common Stock issuable upon exercise of the Option until one or more certificates evidencing such shares of Common Stock shall have been issued to the holder of the Option. In no event may a fraction of a share be purchased or issued under the Plan.

Options issued under the Plan (and any other plans of the Corporation) to any individual will not be treated as "incentive stock options" under Section 422A of the Code to the extent that the aggregate fair market value of the stock underlying any such options (determined as at the time the options are granted), which become exercisable for the first time in any calendar year, exceeds \$100,000.

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### 10. Termination of Employment.

Except as provided in Section 11, any Option granted under the Plan to an employee who voluntarily terminates his employment with the Corporation without the written consent of the Corporation shall expire immediately upon such termination of employment. Any Option granted under the Plan to an employee who voluntarily terminates his employment with written consent of the Corporation or whose employment is involuntarily terminated, shall be exercisable for a period which shall expire on the day 3 months after the cessation of employment, but in no event after expiration of the term of the Option and only to the extent such Option is otherwise exercisable. Except as provided in Section 11, upon the expiration of any such Options, all rights thereunder, to the extent that such rights shall not have been exercised, shall terminate immediately. Options granted under the Plan shall not be affected by any change of employment as long as the holder continues to be an employee of the Corporation or of any subsidiary of the Corporation.

### 11. Exercise Upon Death, Disability or Retirement of the Employee.

(a) If the holder of an Option dies while employed by the Corporation or any of its subsidiaries, the Option may be exercised as to all shares subject to the Option by the executor or administrator of such deceased employee or by such other person at the time entitled by law to the rights of such deceased employee under the Option, at any time within six (6) months after death, but in no event after the expiration of the term of the Option.

(b) In the event that the employment of the holder of any Option by the Corporation or a subsidiary of the Corporation is terminated by reason of the "disability" of the holder of the Option, the Option may be exercised as to all shares subject to the Option by the holder thereof at any time within one (1) year after the date of such termination of employment, but in no event after the expiration of the term of the Option. For purposes of the Plan the term "disability" shall mean a physical or mental disability as defined in Section 105 of the Code.

(c) In the event that the employment of the holder of any Option by the Corporation or a subsidiary of the Corporation is terminated by reason of the retirement of the holder of the Option, the Option may be exercised (to the extent otherwise exercisable on the date of the retirement of the holder of the Option) by the holder thereof at any time within three (3) months after the date of such retirement, but in no event after the expiration of the term of the Option.

### 12. Non-Transferability of Options.

Options shall not be transferable otherwise than by the last will and testament of the holder of the Option or the applicable laws of descent and distribution, and during the lifetime of the holder, Options may be exercised only by the holder thereof. Options may not be assigned, transferred, pledged, hypothecated or disposed of in any way (whether by operation of law or otherwise) except to the extent expressly provided for in the Plan, and shall not be subject to execution, attachment or similar process.

Any assignment, transfer, pledge, hypothecation or other disposition of any Option attempted contrary to the provisions of this Plan, or any levy or execution, attachment or other process attempted upon an Option, will be null and void and without effect. Any attempt to make any such assignment, transfer, pledge, hypothecation or other disposition of an Option or any attempt to make any such levy or execution, attachment or other process will cause the Option to be terminated immediately upon the happening of any such event if the Corporation, at any time, should, in the sole discretion of the Committee or the Board of Directors, so elect, by written notice to the employee or to the person then entitled to exercise the Option under the provisions of Section 11 hereof; provided that any such termination of the Option under the foregoing provisions of this Section 12 will not prejudice any rights or remedies which the

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Corporation or any subsidiary may have under the Plan, any Incentive Stock Option Certificate or otherwise.

### 13. Adjustments.

If (a) the Corporation shall at any time be involved in a transaction to which subsection (a) of Section 425 of the Code is applicable, (b) the Corporation shall declare a dividend payable in, or shall subdivide or combine its Common Stock, or (c) any other event shall occur which, in the judgment of the Committee or the Board of Directors, necessitates action by way of adjusting the terms of the outstanding Options, the Committee or the Board of Directors, as the case may be, shall take any such action as in its judgment shall be necessary to preserve to the holders of Options rights substantially proportionate to the rights existing prior to such event. To the extent that such action shall include an increase or decrease in the number of shares of Common Stock subject to Options outstanding under the Plan, the aggregate number of shares of Common Stock available under Section 2 of the Plan for issuance upon exercise of such outstanding Options and of additional Options which may be granted shall be increased or decreased, as the case may be, proportionately. No action shall be taken by the Committee or by the Board of Directors under the provisions of this Section 13 which, in its judgment, would constitute a modification, extension or renewal of the Option (within the meaning of Section 425(h) of the Code), or would prevent the Option from qualifying as an "incentive stock option" (within the meaning of Section 422A of the Code). The determination of the Committee or the Board of Directors, as the case may be, with respect to any matter referred to in this Section 13 shall be conclusive and binding upon each holder of an Option under the Plan.

### 14. Termination and Amendment of the Plan.

(a) Unless sooner terminated, as hereinafter provided, this Plan shall terminate at 11:59 p.m. on February 14, 2015, and no options shall be granted hereunder after that date. The Board of Directors may, without further approval by the stockholders at any time terminate or amend this Plan without notice, or make such modifications of this Plan as it shall deem advisable; provided that the Board of Directors may not, without prior approval by the stockholders of the Corporation, (i) increase the maximum number of shares of Common Stock as to which Options may be granted under the Plan (except as contemplated by the provisions of Section 13 hereof), (ii) extend the term during which options may be granted under the Plan, (iii) permit the exercise of an Option after the date which such Option would otherwise terminate pursuant to the terms thereof; or (iv) reduce the exercise price per share to less than the fair market value of a share of Common Stock on the date the Option is granted, or, in the case of any Option granted to an individual who, on the date of the grant of the Option, is the owner of more than ten percent (10%) of the total combined voting power of all classes of stock of the Corporation or any subsidiary, 110% of the fair market value of a share of Common stock (except, in both cases, as contemplated by the provisions of section 13 hereof). No termination, amendment or modification of the Plan may, without the consent of the person to whom any Option has been granted, adversely affect the rights of such person under such Option or any unexercised portion thereof.

(b) Notwithstanding the limitation set forth in Paragraph (a) of this Section 14, the Plan and any Option and the number of shares as to which any Option under the Plan shall have been granted may be reduced, retroactively at any time, to conform to the provisions of the Code and the regulations promulgated thereunder, in order that Options under the Plan may qualify as "incentive stock options" within the meaning of Section 422A of the Code, and no such amendment shall be considered prejudicial to the rights of any holder of an Option.

### 15. Substitutions and Assumptions of Options of Certain Constituent

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Corporations.

Anything in this Plan to the contrary notwithstanding, the Board of Directors may, without further approval by the stockholders, substitute new Options for prior options of a constituent corporation (as hereinafter defined) or assume the prior options of such constituent corporation. The term "constituent corporation" shall mean any corporation which has been merged into or consolidated with the Corporation, or whose assets or stock have been purchased or acquired by or liquidated into the Corporation or by or into one or more subsidiaries of the Corporation, or any parent or any subsidiary of any such corporation.

### 16. Indemnification of Committee.

In addition to such other rights of indemnification as they may have as Directors or as members of the Committee, the members of the Committee or the Directors, as the case may be, shall be indemnified by the Corporation against the reasonable expenses, including attorneys' fees actually and necessarily incurred in connection with the defense of any action, suit or proceeding, or in connection with any appeal therein, to which they or any of them may be a party by reason of any action taken or failure to act under or in connection with the Plan or any Option granted thereunder, and against all amounts paid by them in settlement thereof (provided such settlement is approved by the Corporation) or paid by them in satisfaction of a judgment in any such action, suit or proceeding, except in relation to matters as to which it shall be adjudicated in such action, suit or proceeding that such Committee member or Director is liable for negligence or misconduct in the performance of his duties; provided that within 10 days after institution of any such action, suit or proceeding a Committee member shall in writing offer the Corporation the opportunity, at its own expense, to handle and defend the same.

### 17. Effectiveness of the Plan.

The Plan shall become effective on February 15, 2005 provided that the Plan shall be submitted for approval by the stockholders of the Corporation no later than twelve (12) months after the date of adoption of the Plan by the Board of Directors.

## 2005 STOCK BONUS PLAN

### 1. Purposes of the Plan.

The purpose of this Stock Bonus Plan (the "Plan") is to assist FONAR Corporation, a Delaware corporation (the "Corporation"), and its subsidiaries (as hereinafter defined) in attracting and retaining the services of key employees, non-employee directors, officers, advisors and consultants, and to secure for the Corporation and its subsidiaries the benefits of the incentive inherent in ownership of the Corporation's equity securities by parties who are responsible for the continuing growth and success of the Corporation and its subsidiaries.

For the purposes of this plan, the term "subsidiary" and/or "subsidiaries" shall mean any corporation of which the majority of the outstanding voting stock is owned directly or indirectly by the Corporation.

### 2. Shares Subject to the Plan.

Subject to the provisions of Section 7 of the Plan, an aggregate of 3,000,000 shares of Common Stock, par value \$.0001 per share, of the Corporation ("Common Stock"), are available for the issuance under the Plan as compensation

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for services to the Corporation ("Bonus Stock").

The shares to be issued as Bonus Stock under the Plan may be authorized but unissued shares of Common Stock or issued shares of Common Stock which are held in the treasury of the Corporation.

### 3. Term of the Plan.

Subject to the provisions of Section 8 and 10, the Plan shall commence effective as of February 15, 2005, and Bonus Stock awarded under the Plan must be issued no later than February 14, 2015.

### 4. Administration of the Plan.

The Plan shall be administered by a committee which shall consist of two or such greater or lesser number of members, as determined by the Board of Directors from time to time, who shall be appointed by the Board of Directors of the Corporation (the "Committee") or, in the absence of such a Committee, by the Board of Directors of the Corporation. Directors of the Corporation who are either eligible to receive Bonus Stock, or to whom Bonus Stock has been granted, may vote on any matters affecting the administration of the plan or the granting of Bonus Stock under the Plan. Any action of the Committee may be taken by a written instrument signed by a majority of the members of the Committee then in office. Members of the Committee need not be members of the Board of Directors.

Subject to the express provisions of the Plan, the Committee or the Board or Directors, as the case may be, shall have the authority, in its discretion: (i) to determine the parties to receive Bonus Stock, the times when they shall receive such awards, the number of shares to be issued, and the time, terms and conditions of the issuance of any such shares; (ii) to construe and interpret the terms of the Plan; (iii) to establish, amend and rescind rules and regulations for the administration of the Plan; and (iv) to make all other determinations necessary or advisable for administering the Plan. The determinations of the Committee or the Board of Directors, as the case may be, on the matters referred to in this Section 4 shall be final and conclusive.

### 5. Eligibility and Selection.

The Committee or the Board of Directors, as the case may be, shall have sole and absolute discretion to issue Bonus Stock under the Plan to reward employees, non-employee directors, advisors and consultants for services rendered or to be rendered to or for the benefit of the Corporation, or any of its subsidiaries (the grant of Bonus Stock under this Plan shall be referred to as a "Bonus Stock Award"). In determining the parties to whom Bonus Stock Awards shall be granted under the Plan and the number of shares of Common Stock which may be granted to such persons, the Committee or the Board of Directors, as the case may be, shall consider the duties of the parties, their present and potential contributions to the success of the Corporation, and such other factors as the Committee or the Board of Directors deems relevant in furthering the purposes of the granting of such Bonus Stock and the interests of the Corporation. A party may receive more than one Bonus Stock Award under the Plan.

### 6. Bonus Stock Awards.

(a) The Committee or the Board of Directors, as the case may be, shall determine for each party chosen to participate in the Plan ("Participant") the number of shares of Common Stock to be covered by each Bonus Stock Award and the installments, if any, in which the Bonus Stock will be granted.

(b) The Committee or the Board of Directors shall determine the terms, conditions and restrictions, if any, to which such Bonus Stock or its issuance will be subject. Any restrictions imposed shall be evidenced by a written

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agreement executed by the Participant. Such agreement shall also include any terms and conditions required by applicable securities laws.

(c) The Corporation shall deliver to the Participant on the date specified, or as soon thereafter as is practicable, the number of shares of Common Stock specified in such Participant's Bonus Stock Award, subject to and in accordance with the Bonus Stock Award.

(d) Bonus Stock Awards shall not be transferable other than by the last will and testament of the holder of the Bonus Stock Award or the applicable laws of descent and distribution. Bonus Stock Awards may not be assigned, sold, transferred, pledged, hypothecated or disposed of in any way (whether by operation of law or otherwise) except to the extent expressly provided for in the Plan and shall not be subject to execution, attachment or similar process.

### 7. Dilution and Other Adjustments.

In the event of any change in the outstanding Common Shares by reason of any stock dividend or split, recapitalization, merger, consolidation, reorganization, combination or exchange of shares of Common Stock, or other similar corporate change, the Committee or the Board of Directors, as the case may be, shall make such adjustments as it, in its absolute discretion, deems equitable in the number of kind of shares of Common Stock authorized by the Plan and, with respect to outstanding shares of Common Stock covered by Stock Bonus Awards but not yet issued, in the number of kind of stock covered by Stock Bonus Awards made under the Plan.

### 8. Termination and Amendment of the Plan.

Unless sooner terminated, as hereinafter provided, this Plan shall terminate at 11:59 p.m. on February 14, 2015, and no Bonus Stock shall be granted hereunder after that date. The Board of Directors may terminate or amend this Plan at any time without notice, or make such modifications of this Plan as it shall deem advisable. No termination, amendment or modification of the Plan may adversely affect the rights of any party to whom a Bonus Stock Award has been made without such party's consent.

### 9. Indemnification.

In addition to such other rights of indemnification as they may have as directors or as members of the Committee, the members of the Committee and the Board of Directors shall be indemnified by the Corporation against the reasonable expenses, including attorney's fees actually and necessarily incurred in connection with the defense of any action, suit or proceeding, or in connection with any appeal therein, to which they or any of them may be a party by reason of any action taken or failure to act under or in connection with the Plan or any Bonus Stock Award granted thereunder, and against all amounts paid by them in settlement thereof (provided that such settlement is approved by the Corporation) or paid by them in satisfaction of a judgment in any such action, suit or proceeding, except in relation to matters as to which it shall be adjudicated in such action, suit or proceeding that such Committee member or director, as the case may be, is liable for negligence or misconduct in the performance of his duties; provided that within 10 days after institution of any such action, suit, or proceeding a Committee member or director, as the case may be, shall offer the Corporation in writing the opportunity, at its own expense, to handle and defend the same.

### 10. Effectiveness of the Plan.

The Plan shall become effective on February 15, 2005, provided that the Plan shall be submitted for approval by the stockholders of the Corporation no later than twelve months after the adoption of the Plan by the Board of

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Directors.

ANNUAL REPORT

2004

FONAR

THE MRI SPECIALIST

FONAR PRESIDENT'S MESSAGE TO SHAREHOLDERS

May 11, 2005

Dear Shareholders:

I am very pleased to report to you that FONAR ended FY 2004 on a very strong note and has continued its forward progress during the first nine months of FY 2005. Some of the accomplishments we have achieved in the past 12 months include:

- o Realized growing acceptance for Upright(TM) imaging by the medical community;
- o Increased sales and installations of the FONAR Upright(TM) MRI;
- o Recorded the 100th sale of the Upright(TM) MRI;
- o Improved operating efficiencies; and
- o Achieved profitability for the nine month period ended March 31, 2005.

Growing Acceptance for Upright(TM) Imaging and the Upright(TM) MRI

The growth that FONAR has experienced in its business is due in large part to the growing acceptance for Upright(TM) imaging by the medical community at large. Today, an ever-increasing number of radiologists, neurosurgeons, orthopaedic surgeons, general surgeons and other clinicians are acknowledging the benefits of scanning their patients in a weight-bearing position. In fact, many doctors tell us that they believe scans from the Upright(TM) MRI are the only way for them to clearly see the cause of their patients' discomforts and factor that information into their surgical and/or treatment strategies.

Even Yale-New Haven's Temple Radiology has joined the Upright(TM) revolution. A renowned leader for acquiring new medical technology, Yale's purchase of the Upright(TM) MRI sets the standard which other research hospitals and universities will want to emulate. Upon the announcement of the sale and installation of the scanner at Yale, Richard Knobleman, M.D., medical director of Yale-New Haven Ambulatory Services Corporation/Temple Radiology, remarked, "We selected the FONAR Upright(TM) MRI because it is the only scanner that allows us to see a complete picture of patients' pathologies as they are experiencing pain and discomfort. The difference in this new technology is like night and day. We believe this technology will enable us to perform more accurate surgical procedures."

In addition, FONAR has received many other rave reviews for the Upright(TM) MRI over the past year. I thought you might like to read a few of those testimonials as well.

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George L. Rodriguez, MD, a board-certified Physical Medicine and Rehabilitation physician and director of a new MRI facility in Philadelphia, PA, remarked, "For years I have waited for the day when I could observe the soft tissues of patients in many different positions - particularly in the positions of pain. Finally, this day has arrived. Upright(TM) imaging technology enables doctors to better define the abilities, restrictions and impairments of injured patients, particularly for accident and trauma victims. That is why I purchased the FONAR Upright(TM) MRI for my clinical practice." Dr. Rodriguez added, "I can envision a time when all conditions that affect motion and function are visible using the Upright(TM) MRI, making this technology the 'GOLD STANDARD' of MRI for evaluating tissue 'function'. I believe the medical community eventually will demand Upright(TM) MRIs for many conditions and other MRI studies will be considered inappropriate. I think the FONAR Upright(TM) MRI will replace all other open MRIs."

Dr. Glenn Molin, director of Next Generation MRI in Columbia, MD, said, "We purchased the FONAR Upright(TM) MRI because of its advanced MRI applications. Intuitively, physicians understand the value of Upright(TM) imaging and attempt to achieve it through the use of X-ray or myelography. Now for the first time, with the FONAR Upright(TM) MRI, we can do Upright(TM) imaging using the exquisite diagnostic capabilities of the MRI. I believe that the Upright(TM) MRI will become the standard for ortho-neuro applications."

Michael A. Brisman, MD, neurosurgeon at Great Neck MRI in Long Island, NY, said, "The Upright(TM) MRI is a unique product and technology that provides the image quality that discerning physicians expect, as well as enables neurosurgeons, like me, to see changes in pathology based on a patient's position. Moreover, the Upright(TM) MRI is patient friendly, allowing even the most claustrophobic patients to be scanned without difficulty. As a result, using the FONAR Upright(TM) MRI gives Great Neck Stand-Up MRI a competitive advantage in an area that already has many MRI machines and facilities."

Paul Hoang, a pain management specialist, anesthesiologist and a general partner in Victoria MRI in Victoria, TX, commented, "We purchased the FONAR Upright(TM) MRI after carefully examining the MRI marketplace. We determined that the FONAR scanner is the most technologically advanced product available. It is a very differentiated product that gives us a diagnostic competitive edge over conventional MRI scanners."

Richard A. Marks, MD, a board-certified orthopedic surgeon and president of Up & Open Imaging in Dallas, TX, remarked, "The medical community at large has overwhelmingly embraced the remarkable technology of the Upright(TM) MRI study. "The FONAR Upright(TM) MRI at Up & Open Imaging shatters another myth, that an 'Open' MRI gives substandard images. Our referring physicians are awed by the clarity of the images. They realize that the image quality bears a much closer resemblance to a 1.5 Tesla closed magnet than to a grainy 0.35 Tesla Open."

### Increased Sales and Installations

When I reported to you at this time last year, FONAR had sold 76 Upright(TM) MRIs and installed 40 scanners. As of March 31, 2005, sales have risen to 110, an increase of 45%, and the number of installations has climbed to 81, a two-fold increase over last year. And our pipeline of opportunities to demonstrate the scanner to other physicians and surgeons continues to build. Moreover, I am pleased to say that FONAR is meeting customer demand as orders are received.

The chart on the top of the next page -- Moving Average of Upright(TM) MRI Unit Sales/Month -shows a 12-month moving average of monthly scanner sales. Note the positive trend of the linear regression line.

FONAR is also more fully reaping the benefits of service and repair fees, as

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warranties on Upright(TM) machines installed last year expire and we begin collecting annual service fees. At this time only 1/3 of our Upright(TM) MRIs are out of warranty. We expect this trend to continue to improve, and we believe it will create a stable revenue stream for us moving forward.

### Explanation of Revenue Recognition

It is important not only to grasp our sales patterns on a quarterly basis, but also to clearly understand how FONAR recognizes scanner (product) revenues on a quarterly basis. We recognize revenues for the Upright(TM) MRI on a "percentage of completion" basis, which means a portion of the total sales price is recorded throughout the entire sales/manufacturing/installation process. Therefore, the revenues announced for a particular quarter are not necessarily reflective of new orders or installations that were announced in that quarter. Rather, it is the combination of new sales and progress payments (installations) received in a quarter that provides the clearest picture of how revenues are recorded.

### Increased Marketing Initiatives

Over the past 12 months, we aggressively escalated our marketing initiatives. During this timeframe, we attended more conferences and trade exhibits than ever before, and we enhanced our presence at these events by expanding our booth size and/or attaining better booth placement; we added five new sales people to the FONAR team, bringing our sales force to 20 members; and we hosted our Second Annual Customer/User Workshop.

Some significant conferences in which we exhibited in the past 12 months include: the 54th Annual Meeting of the Congress of Neurological Surgeons (CNS) in San Francisco (our first appearance at this conference); the 19th Annual Meeting and Technical Exhibit Show of the North American Spine Society (NASS) in Chicago; the 90th Annual Scientific Assembly and Annual Meeting of the Radiological Society of North America (RSNA) in Chicago, which was attended by more than 60,000 radiology and allied health care professionals from around the world; the 72nd Annual Meeting of the American Academy of Orthopaedic Surgeons in (AAOS) in Washington, DC; and the 73rd annual meeting of the American Association of Neurological Surgeons (AANS) in New Orleans. FONAR's participation at conferences and trade shows generates good exposure for the Upright(TM) MRI, as well as helps us to generate sales leads. Therefore, we believe that our attendance at these events offers a good return on investment for the Company.

In addition, our annual Customer/User Workshops are proving to be an essential component of our marketing initiatives. The input of FONAR customers is a critical element to the development and growth of the Upright(TM) MRI. In March, we assembled for our second annual workshop, which was both fruitful and informative. Operating an Upright(TM) MRI scanning center and providing top-quality service to patients and physicians is very experience dependent. The FONAR Customer/User Workshops are very effective at promoting the exchange of valuable lessons learned in the MRI marketplace. In addition, these workshops provide us with the necessary feedback to stay current with our customers' needs.

### Improved Operating Efficiencies

Concurrent with the rapid growth in product sales and service fees, we exercised stringent controls over operating expenses to ensure that our spending paces revenue growth. This can be seen in the upgrading and streamlining of our HMCA business segment. There, we successfully turned around the business by carefully managing expenses and realizing savings from the closing of unprofitable sites. Furthermore, we believe we can sustain this progress by replacing older scanners with Upright(TM) MRIs. HMCA currently manages seven sites that are equipped with Upright(TM) MRIs. Our plan is to open three new sites with Upright(TM) MRIs

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within the next nine months, bringing the total number of HMCA facilities with Upright(TM) MRIs to ten.

### Achieved Profitability

Due to increased product sales, improved efficiencies resulting from higher sales volumes, increased service and repair fees and continued cost control measures, FONAR was able to achieve and sustain profitability for the first nine months of FY 2005.

### Development Pipeline

Even though we have made tremendous strides with the Upright(TM) MRI, we are not resting on our laurels. At the RSNA event in November, FONAR demonstrated the latest works-in-progress application for the Upright(TM) MRI - obtaining images of the beating heart and the blood-vascular system with the patient in the vertical position. This is a significant advancement because when physicians evaluate cardiac patients with heart failure, they prefer to see the heart performing against its normal physiological uphill load rather than in the lying-down position, where the blood is practically running downhill. In addition, imaging blood vessels vertically, where the flow is against gravity, is more likely to enable doctors to see the full impact of vascular pathologies on blood flow that is not evident when blood is flowing horizontally. Rather, in the gravity-affected vertical position, multiple factors may lead to decreased arterial or venous circulation, such as decreased cardiac output or loss of auto regulation.

Along with demonstrating images of the beating heart, we also unveiled the prototype of our new works-in-progress MRI-compatible treadmill that sits inside the FONAR Upright(TM) MRI. This novel device is designed to provide doctors with the ability to directly image the exercising heart.

### Investor Relations Initiatives

In September, FONAR engaged The Anne McBride Company to assist us with our investor relations and communications efforts. Since that time, we have conducted quarterly conference calls, commenced an institutional investor outreach program, and made presentations at investment-oriented conferences. For example, we met with over 30 institutional investors, high net-worth individuals and sell-side analysts, as well as conducted conference calls with numerous others. In addition, we presented to an institutional investor audience at The Wall Street Analyst Forum in New York City on March 2 and at the Deutsche Bank Health Care Conference in Baltimore on May 3. Our meetings have been well received by Wall Street, and as a result, we are starting to build an institutional investor following. FONAR plans to continue this program and expects it will help to increase shareholder value going forward.

### Sales Growth Confirms Long-Term Strategy

Our superior technology and ability to meet the special needs of physicians and surgeons continues to command market demand. In addition, the pipeline of opportunities to demonstrate the Upright(TM) MRI to new physicians and surgeons continues to build. All at FONAR remain focused on continuing our pace of new sales and installations and aggressively marketing to customers, while continuing to upgrade and streamline our HMCA operations.

We are pleased with the milestones FONAR has attained in the last year, and we plan to continue capitalizing on our opportunities, building a strong business and increasing shareholder value. We have made outstanding progress in positioning FONAR for success, and we plan to stay the course in the coming year. We believe that our increased marketing efforts and cost control measures present both strong growth potential and financial stability for the Company.

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Closing

I believe that we have begun to meet our investor goals. The Upright(TM) MRI is a success; we are growing the Company at a very healthy pace; we are achieving profitability; and we expect a profitable year for Fiscal 2005.

In conclusion, I would like to extend a special thanks to our faithful shareholders who have supported FONAR throughout the years and continue to support us today. In addition, I would like to thank our customers and our employees, both of whom supported the growth of our business over the past year. We are pleased to share our achievements with you.

Sincerely,

Raymond V. Damadian  
President and Chairman

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FORM 10-K  
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[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [Fee Required] For the fiscal year ended June 30, 2004

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934 [No Fee Required] For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 0-10248  
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FONAR CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE  
(State of incorporation)

11-2464137  
(IRS Employer Identification Number)

110 Marcus Drive, Melville, New York  
(Address of principal executive offices)

11747  
(Zip Code)

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

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Securities registered pursuant to Section 12(b) of the Act:  
None

Securities registered pursuant to Section 12(g) of the Act:  
Common Stock, par value \$.0001 per share  
(Title of Class)  
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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

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required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark if disclosure of delinquent filers, pursuant to Item 405 of Regulation S-K (ss.229.405 of this Chapter), is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this 10-K or any amendment to the Form 10-K. [X]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).

Yes  No

As of August 31, 2004, 99,431,233 shares of Common Stock, 3,953 shares of Class B Common Stock, 9,562,824 shares of Class C Common Stock and 7,836,287 shares of Class A Non-voting Preferred Stock of the registrant were outstanding. The aggregate market value of the approximately 96,884,790 shares of Common Stock held by non-affiliates as of such date based on the closing price per share on August 31, 2004 as reported on the NASDAQ System, was approximately \$106,573,269. The other outstanding classes do not have a readily determinable market value.

DOCUMENTS INCORPORATED BY REFERENCE  
None

### PART I ITEM 1. BUSINESS GENERAL

FONAR Corporation, sometimes referred to as the "Company" or "FONAR", is a Delaware corporation which was incorporated on July 17, 1978. Our address is 110 Marcus Drive, Melville, New York 11747 and our telephone number is 631-694-2929. FONAR also maintains a WEB site at [www.fonar.com](http://www.fonar.com).

FONAR is engaged in the business of designing, manufacturing, selling and servicing magnetic resonance imaging, also referred to as "MRI" or "MR", scanners which utilize MRI technology for the detection and diagnosis of human disease. FONAR's founders built the first scanner in 1977 and FONAR introduced the first commercial MRI scanner in 1980. FONAR is the originator of the iron-core non-superconductive and permanent magnet technology.

FONAR's iron frame technology made FONAR the originator of "open" MRI scanners. We introduced the first "open" MRI in 1980. Since that time we have concentrated on further application of our "open" MRI, introducing most recently the Stand-Up(TM) Brand MRI scanner and Fonar 360(TM) MRI scanner.

The product we are now most vigorously promoting is our Stand-Up(TM) MRI. The Stand-Up(TM) MRI is unique in the industry in that it allows patients to be scanned in a fully weight-bearing condition, such as standing, sitting or bending in any position that causes symptoms. This means that an abnormality or injury, such as a slipped disk can be visualized where it may not be visualized with the patient lying down.

Health Management Corporation of America, formerly U.S. Health Management Corporation, which we sometimes refer to as "HMCA", was formed by Fonar in March 1997 as a wholly-owned subsidiary in order to enable us to expand into the business of providing comprehensive management services to medical providers.

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HMCA provides management services, administrative services, office space, equipment, repair, maintenance service and clerical and other non-medical personnel to physicians and other medical providers, including diagnostic imaging centers.

See Note 20 to the Consolidated Financial Statements for separate financial information respecting our medical equipment and physician and diagnostic management services segments.

### FORWARD LOOKING STATEMENTS.

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

### RECENT DEVELOPMENTS AND OVERVIEW.

Our products and works-in-progress are intended to significantly improve our competitive position. Our current products are the Stand-Up(TM) MRI and the Fonar 360(TM).

The Stand-Up(TM) MRI permits, for the first time, MRI diagnoses to be made in the weight-bearing state. The Stand-Up(TM) MRI is the only MRI scanner which allows patients to be scanned while standing, sitting or reclining, either horizontally or at an angle. This means that an abnormality or injury, such as a slipped disk, will be able to be scanned under full weight-bearing conditions and, more often than not, in the position in which the patient experiences pain. An elevator built into the floor brings the patients to the desired height in the scanner. An adjustable bed allows the patients to stand, sit or lie on their backs, sides or stomachs at any angle. In the future the Stand-Up(TM) MRI may also be useful for MRI guided interventional procedures.

We are vigorously promoting sales of the Stand-Up(TM) MRI which we regard as our most promising product. The market for the Stand-Up(TM) shows strong progress. During the fiscal year ended June 30, 2004, we received orders for 39 Stand-Up(TM) MRI scanners as compared to 22 for the fiscal year ended June 30, 2003. Revenues recognized from the sale of Stand-Up(TM) MRI scanners increased in fiscal 2004 by 76% over fiscal 2003 from approximately \$24.3 million in fiscal 2003 to approximately \$42.7 million in fiscal 2004, following a 119% increase from fiscal 2002 to fiscal 2003, when revenues from the sale of Stand-Up(TM) MRI scanners increased from \$11.1 million to \$24.3 million in fiscal 2003. The following chart shows the revenues attributable to our different model scanners for the fiscal years ended June 30, 2003 and June 30, 2004. Note that we recognize revenue on a percentage of completion basis. Accordingly, revenue is recognized as each sub-assembly of a scanner is

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manufactured. Consequently the revenues for a fiscal period do not necessarily relate to orders placed in that period.

Model	Revenues Recognized	
	Fiscal 2003	Fiscal 2004
Stand-Up (TM)	\$24,298,460	\$42,668,377
Fonar 360 (TM)	0	0
QUAD (TM)	0	0
Echo (TM)	0	0
Beta (T		