FONAR CORP
Form 10-Q
May 14, 2007

FORM 10-Q
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended MARCH 31, 2007

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

Commission file number 0-10248

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

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

110 Marcus Drive Melville, New York	11747
(Address of principal executive offices)	(Zip Code)

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). YES X NO ___

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

Class	Outstanding at April 30, 2007
Common Stock, par value $.0001	4,865,186
Class B Common Stock, par value $.0001	158
Class C Common Stock, par value $.0001	382,513
Class A Preferred Stock, par value $.0001	313,451

FONAR CORPORATION AND SUBSIDIARIES
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FONAR CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
(000's OMITTED)

ASSETS	March 31, 2007 (UNAUDITED)	June 30, 2006
Current Assets:		
Cash and cash equivalents	$ 2,812	$ 4,557
Marketable securities	2,971	4,938
Accounts receivable - net	4,769	3,359
Accounts receivable - related parties - net	389	499
Medical receivables	3,431	6,053
Management fee receivable - related medical practices - net	7,327	7,323
Costs and estimated earnings in excess of billings on uncompleted contracts	209	2,958
Inventories	6,149	7,077
Investment in sales-type lease	-	279
Current portion of advances and notes to related medical practices	213	90
Current portion of note receivable less discount for below market interest	569	459
Prepaid expenses and other current assets	1,322	1,280
Total Current Assets	30,161	38,872
Property and equipment - net	5,563	6,667
Advances and notes to related medical practices - net	518	676
Notes receivable less discount for below market interest	5,290	5,719
Other intangible assets - net	5,282	4,930
Other assets	1,665	366
Total Assets	$ 48,479	$ 57,230

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

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

LIABILITIES AND STOCKHOLDERS' EQUITY	March 31, 2007 (UNAUDITED)	June 30, 2006
Current Liabilities:		
Current portion of long-term debt and capital leases	$ 239	$ 234
Accounts payable	3,892	4,886
Other current liabilities	6,499	6,102
Unearned revenue on service contracts	5,202	4,238
Unearned revenue on service contracts - related parties	454	544
Customer advances	11,268	5,464
Customer advances - related party	42	42
Income taxes payable	-	8
Billings in excess of costs and estimated earnings on uncompleted contracts	1,642	2,979
Billings in excess of costs and estimated earnings on uncompleted contracts - related party	-	137
Total Current Liabilities	29,238	24,634
Long-Term Liabilities:		
Due to related medical practices	93	93
Long-term debt and capital leases, less current portion	1,012	1,172
Other liabilities	170	215
Total Long-Term Liabilities	1,275	1,480
Total Liabilities	30,513	26,114
Minority interest	571	697

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

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

LIABILITIES AND STOCKHOLDERS' EQUITY (continued)	March 31, 2007 (UNAUDITED)	June 30, 2006
STOCKHOLDERS' EQUITY		
Class A non-voting preferred stock $.0001 par value; 1,600,000 authorized, 313,451 issued and outstanding At March 31, 2007 and June 30, 2006	-	-
Common Stock $.0001 par value; 30,000,000 shares authorized at March 31, 2007 and June 30, 2006, 4,872,829 issued at March 31, 2007 and 4,599,804 at June 30, 2006; 4,861,186 outstanding at March 31, 2007 and 4,588,161 at June 30, 2006	-	-
Class B Common Stock $ .0001 par value; 800,000 shares authorized, (10 votes per share), 158 issued and outstanding at March 31, 2007 and June 30, 2006	-	-
Class C Common Stock $.0001 par value; 2,000,000 shares		

authorized, (25 votes per share), 382,513 issued and outstanding at March 31, 2007 and June 30, 2006	-	-
Paid-in capital in excess of par value	171,999	168,425
Accumulated other comprehensive loss	(94)	(246)
Accumulated deficit	(153,309)	(136,333)
Notes receivable from employee stockholders	(526)	(752)
Treasury stock, at cost - 11,643 shares of common stock at March 31, 2007 and June 30, 2006	(675)	(675)
Total Stockholders' Equity	17,395	30,419
Total Liabilities and Stockholders' Equity	$ 48,479	$ 57,230

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

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

	FOR THE THREE MONTHS ENDED MARCH 31, 2007	2006
REVENUES		
Product sales - net	$ 3,220	$ 1,285
Product sales - related parties - net	1	397
Service and repair fees - net	2,314	2,079
Service and repair fees - related parties - net	243	250
Management and other fees - related medical practices - net	3,004	3,092
Total Revenues - Net	8,782	7,103
COSTS AND EXPENSES		
Costs related to product sales	3,128	1,670
Costs related to product sales - related parties	1	585
Costs related to service and repair fees	1,203	1,291
Costs related to service and repair fees - related parties	126	153
Costs related to management and other fees - related medical practices	2,236	2,051
Research and development	1,509	1,683
Selling, general and administrative, inclusive of compensatory element of stock issuances of $ 0 and $ 268 for the three months ended March 31, 2007 and 2006, respectively	5,794	6,253
Provision for bad debts	100	775
Total Costs and Expenses	14,097	14,461
Loss From Operations	(5,315)	(7,358)
Interest Expense	(60)	(50)
Investment Income	178	207
Interest Income - Related Parties	10	3

Other Income	26	44
Minority Interest in Income of Partnerships	(240)	(203)
NET LOSS	$(5,401)	$(7,357)
Basic and Diluted Loss Per Common Share	$ (1.11)	$ (1.65)
Weighted Average Number of Shares Outstanding	4,860,418	4,460,878

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

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

	FOR THE NINE MONTHS ENDED MARCH 31,	
	2007	2006
REVENUES		
Product sales - net	$ 7,619	$ 7,125
Product sales - related parties - net	143	2,914
Service and repair fees - net	6,806	5,617
Service and repair fees - related parties - net	722	740
Management and other fees - net	-	648
Management and other fees - related medical practices - net	8,947	9,526
License fees and royalties	-	1,227
Total Revenues - Net	24,237	27,797
COSTS AND EXPENSES		
Costs related to product sales	7,939	7,378
Costs related to product sales - related parties	147	2,655
Costs related to service and repair fees	3,503	3,722
Costs related to service and repair fees - related parties	371	490
Costs related to management and other fees	-	528
Costs related to management and other fees - related medical practices	6,459	6,724
Research and development	4,320	5,248
Selling, general and administrative, inclusive of compensatory element of stock issuances of $ 121 and $ 1,337 for the nine months ended March 31, 2007 and 2006, respectively	18,017	19,526
Provision for bad debts	286	825
Amortization of management agreements	-	37
Termination costs paid with common stock	-	1,600
Total Costs and Expenses	41,042	48,733
Loss From Operations	(16,805)	(20,936)
Interest Expense	(203)	(214)
Investment Income	606	617
Interest Income - Related Parties	32	9
Other Income	104	262

Minority Interest in Income of Partnerships	(710)	(769)
NET LOSS	$(16,976)	$(21,031)
Basic and Diluted Loss Per Common Share	$ (3.52)	$ (4.80)
Weighted Average Number of Shares Outstanding	4,817,860	4,384,245

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

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

	FOR THE THREE MONTHS ENDED MARCH 31,	
	2007	2006
Net loss	$(5,401)	$(7,357)
Other comprehensive income, net of tax:		
Unrealized gains on securities, net of tax	40	50
Total comprehensive loss	$(5,361)	$(7,307)

	FOR THE NINE MONTHS ENDED MARCH 31,	
	2007	2006
Net loss	$(16,976)	$(21,031)
Other comprehensive income (loss), net of tax:		
Unrealized gains (losses) on securities, net of tax	152	(97)
Total comprehensive loss	$(16,824)	$(21,128)

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

FONAR CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(000'S OMITTED)

FOR THE NINE MONTHS ENDED

	MARCH 31, 2007	MARCH 31, 2006
Cash Flows from Operating Activities:		
Net loss	$(16,976)	$(21,031)
Adjustments to reconcile net loss to net cash used in operating activities:		
Minority interest in income of partnerships	710	769
Depreciation and amortization	1,987	2,430
Provision for bad debts	286	825
Compensatory element of stock issuances	121	1,337
Stock issued for costs and expenses	1,839	3,001
Termination costs paid with common stock	-	1,600
Amortization of unearned compensation	-	291
Gain on sale of equipment	-	(3)
Loss from sale of physical medicine management business	-	144
(Increase) decrease in operating assets, net:		
Accounts, management fee and medical receivable(s)	1,032	(630)
Notes receivable	319	(3)
Costs and estimated earnings in excess of billings on uncompleted contracts	2,748	6,062
Inventories	928	2,182
Principal payments received on sales type lease	279	128
Prepaid expenses and other current assets	(41)	475
Other assets	(65)	26
Advances and notes to related medical practices	35	(27)
Increase (decrease) in operating liabilities, net:		
Accounts payable	(995)	(3,655)
Other current liabilities	1,271	662
Customer advances	5,804	1,843
Billings in excess of costs and estimated earnings on uncompleted contracts	(1,474)	739
Other liabilities	(45)	(38)
Due to related medical practices	-	(28)
Income taxes payable	(8)	(11)
Net cash used in operating activities	(2,245)	(2,912)

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

FONAR CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(000'S OMITTED)

	FOR THE NINE MONTHS ENDED MARCH 31, 2007	2006
Cash Flows from Investing Activities:		
Purchases of marketable securities	-	(300)
Sales of marketable securities	2,119	3,210
Purchases of property and equipment	(332)	(1,592)
Costs of capitalized software development	(497)	(557)
Cost of patents and copyrights	(406)	(371)

Proceeds from sale of equipment	-	97
Net cash provided by investing activities	884	487
Cash Flows from Financing Activities:		
Distributions to holders of minority interests	(836)	(604)
Proceeds from long-term debt	-	478
Repayment of borrowings and capital lease obligations	(155)	(255)
Net proceeds from exercise of stock options and warrants	50	662
Net proceeds from sale of stock	373	-
Repayment of notes receivable from employee stockholders	184	216
Net cash (used in) provided by financing activities	(384)	497
Net Decrease in Cash and Cash Equivalents	(1,745)	(1,928)
Cash and Cash Equivalents - Beginning of Period	4,557	5,517
Cash and Cash Equivalents - End of Period	$ 2,812	$ 3,589

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

FONAR CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2007
(UNAUDITED)

NOTE 1 - BASIS OF PRESENTATION & LIQUIDITY & CAPITAL RESOURCES

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine months ended March 31, 2007 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2007. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K filed on September 20, 2006 for the fiscal year ended June 30, 2006.

Liquidity and Capital Resources

The Company's principal source of liquidity has been derived from revenues, as well as cash provided by previous debt and equity financing. Management is expecting this to continue. At March 31, 2007, the Company had working capital of $923,000. For the nine months ended March 31, 2007, the Company incurred a net loss of $17.0 million which included non-cash charges of $4.2 million.

Sales levels remain weaker than expected and the Company continues to focus its efforts on increased advertising and marketing campaigns, and distribution programs to strengthen the demand for Fonar's products. Management anticipates that Fonar's capital resources will improve as Fonar's MRI scanner products gain wider market recognition and acceptance resulting in increased product sales. If the Company is not successful with its current marketing efforts to increase sales, then the Company will experience a shortfall in cash necessary to sustain operations at their current levels. Should weak demand continue, the Company has determined it will be necessary to reduce overhead expenses or seek other sources of funds through the issuance of equity or debt financing in order to maintain sufficient funds available to operate through March 31, 2008. The reduction in overhead expenses might need to be substantial in order for the Company to streamline operations to an efficient level.

FONAR CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2007
(UNAUDITED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

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

Reverse Stock Split

On April 17, 2007, the Company effected a one-for-twenty-five reverse split of its issued and outstanding common stock, Treasury Shares of the Common Stock, the Class B Common Stock, the Class C Common Stock and the Class A Non-Voting Preferred Stock and Preferred Stock. The accompanying condensed consolidated financial statements, notes and other references to share and per share data have been retroactively restated to reflect the reverse stock splits for all periods presented.

At the same time reduce the number of shares of stock which the Company has the authority to issue 36,400,000 shares from 182,000,000 shares. The Classes and the aggregate number of shares of stock of every class which the Company shall have the authority to issue are as follows:

Common Stock	30,000,000
Class B Common Stock	800,000
Class C Common Stock	2,000,000
Preferred Stock	2,000,000
Class A Non-Voting Preferred Stock	1,600,000
	36,400,000

Earnings (Loss) Per Share

Basic earnings (loss) per share ("EPS") is computed based on weighted average shares outstanding and excludes any potential dilution. In accordance with EITF 03-6, "Participating Securities and the Two-Class method under FASB Statement No. 128" ("EITF 03-6"), the Company's participating convertible securities, which include Class B common stock and Class C common stock, are not included in the computation of basic EPS for nine months ended March 31, 2007 and 2006, because the participating securities do not have a contractual obligation to share in the losses of the Company.

Diluted EPS reflects the potential dilution from the exercise or conversion of all dilutive securities into common stock based on the average market price of common shares outstanding during the period. The number of common shares potentially issuable upon the exercise of certain options and warrants or conversion of the participating convertible securities that were excluded from the diluted EPS calculation was approximately 279,000 and 281,000 because they are antidilutive as a result of a net loss for the nine months ended March 31, 2007 and 2006, respectively.

FONAR CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2007
(UNAUDITED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Stock Options and Warrants and Similar Equity Instruments

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment" SFAS 123R. SFAS 123R requires the compensation cost relating to stock-based payment transactions be recognized in financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued on the grant date of such instruments, and will be recognized over the period during which an individual is required to provide service in exchange for the award (typically the vesting period). SFAS 123R covers a wide range of stock-based compensation arrangements including stock options, restricted stock plans, performance-based awards, stock appreciation rights, and employee stock purchase plans. SFAS 123R replaces SFAS 123 and supersedes APB Opinion 25.

On July 1, 2005, the Company adopted SFAS 123R using the modified prospective method, in which compensation cost is recognized beginning with the effective date (a) based on the requirements of SFAS 123R for all share-based payments granted after the effective date and (b) based on the fair value as measured under SFAS 123 for all awards granted to employees prior to the effective date of SFAS 123R that remain unvested on the effective date.

Accordingly, the adoption of SFAS 123R's fair value method did not have a significant impact on our result of operations. SFAS 123R requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. It is unlikely that the Company will have near term benefits from tax deductions. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. The Company cannot estimate what those amounts will be in the future because of various factors, including but not limited to the timing of employee exercises and whether the Company will be in a taxable position. At this time, there would be no tax impact related to the prior periods since the Company has a net loss.

Recent Accounting Pronouncements

In February 2006, the FASB issued SFAS NO. 155, Accounting for Certain Hybrid Financial Instruments-An Amendment of FASB No. 133 and 140. The purpose of SFAS statement No. 155 is to simplify the accounting for certain hybrid financial instruments by permitting fair value re-measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. SFAS No. 155 also eliminates the restriction on passive derivative instruments that a qualifying special-purpose entity may hold. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of any entity's first fiscal year beginning after September 15, 2006. We believe that the adoption of this standard on July 1, 2007 will not have a material effect on our condensed consolidated financial statements.

FONAR CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2007
(UNAUDITED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements (Continued)

In March 2006, the FASB issued SFAS No. 156, Accounting for Servicing of Financial Assets, an Amendment of SFAS No. 140. SFAS No. 156 requires separate recognition of a servicing asset and a servicing liability each time an entity undertakes and obligation to service a financial asset by entering into a servicing contract. This statement also requires that servicing assets and liabilities be initially recorded at fair value and subsequently adjusted to the fair value at the end of each reporting period. This statement is effective in fiscal years beginning after September 15, 2006. We believe that the adoption of this standard on July 1, 2007 will not have a material effect on our condensed consolidated financial statements.

In June, 2006, the FASB issued Interpretation No. 48, "Accounting of Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109". This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. This Interpretation is effective for fiscal years beginning after December 31, 2006. The Company is assessing the impact of this Interpretation on its condensed consolidated financial statements, but does not expect it to have a material effect.

In September, 2006, the FASB issued SFAS No. 157, "Fair Value Measurements", which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. This standard applies under other accounting pronouncements that require or permit fair value measurements, but does not require any new fair value measurements. SFAS No. 157 will become effective for us in 2009. We are currently assessing the impact of SFAS No. 157; however, we do not believe the adoption of this standard will have a material effect on our condensed consolidated financial statements.

In September, 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans", which requires us to recognize the funded status of our defined benefit plans in the consolidated balance sheets and changes in the funded status in comprehensive income. This standard also requires us to recognize the gains/losses, prior year service costs and transition assets/obligations as a component of other comprehensive income upon adoption, and provide additional annual disclosure. SFAS No. 158 does not affect the computation of benefit expense recognized in our consolidated statements of operations. The recognition and disclosure provisions are effective in 2007. In addition, SFAS No. 158 requires us to measure plan assets and benefit obligations as of the year-end balance sheet date effective in 2009. We are required to apply the provisions of this standard prospectively. We are currently assessing the impact of SFAS No. 158 on our condensed consolidated financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements (Continued)

In September, 2006, the SEC staff issued Staff Accounting Bulletin ("SAB") No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements". This guidance indicates that the materiality of a misstatement must be evaluated using both the rollover and iron curtain approaches. The iron curtain approach quantifies a misstatement based on the amount of the error originating in the current year income statement. SAB No. 108 is effective for our 2007 annual consolidated financial statements. We are currently assessing the impact of SAB No. 108; however, we do not believe the adoption of this standard will have a material effect on our condensed consolidated financial statements.

In February, 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (FAS 159). FAS 159 provides Companies with an option to report selected financial assets and liabilities at fair value. FAS 159's objective is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. FAS 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between Companies that choose different measurement attributes for similar types of assets and liabilities. FAS 159 requires Companies to provide additional information that will help investors and other users of financial statements to more easily understand the effect of the Company's choice to use fair value on its earnings. It also requires entities to display the fair value of those assets and liabilities for which the Company has chosen to use fair value on the face of the balance sheet. FAS 159 is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. Early adoption is permitted as of the beginning of the previous fiscal year provided that the entity makes that choice in the first 120 days of that fiscal year and also elects to apply the provisions of Statement 157. The Company did not early adopt FAS 159.

In March 2007, the Financial Accounting Standards Board (FASB) ratified the Emerging Issues Task Force (EITF) consensus on EITF Issue No. 06-10, "Accounting for Collateral Assignment Split Dollar Life Insurance." This EITF indicates that an employer should recognize a liability for postretirement benefits related to collateral assignment split-dollar life insurance arrangements. In addition, the EITF provides guidance for the recognition of an asset related to a collateral assignment split-dollar life insurance arrangement. The EITF is effective for fiscal years beginning after December 15, 2007. The Company will adopt the EITF as required and management does not expect it to have any impact on the Company's results of operations, financial condition and liquidity.

FONAR CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2007
(UNAUDITED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements (Continued)

In June 2006, the EITF reached a consensus on Issue No. 06-3 ("EITF 06-3"), " Disclosure Requirements for Taxes Assessed by a Governmental Authority on Revenue-Producing Transactions ." The consensus allows companies to choose between two acceptable alternatives based on their accounting policies for transactions in which the company collects taxes on behalf of a governmental authority, such as sales taxes. Under the gross method, taxes collected are accounted for as a component of sales revenue with an offsetting expense. Conversely, the net method allows a reduction to sales revenue. If such taxes are reported gross and are significant, companies should disclose the amount of those taxes. The guidance should be applied to financial reports through retrospective application for all periods presented, if amounts are significant, for interim and annual reporting beginning after December 15, 2006 with early adoption is permitted. We do not expect the adoption of EITF 06-3 to have a material effect on our condensed consolidated financial statements.

Reclassifications

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

NOTE 3 - MEDICAL RECEIVABLES, ACCOUNTS RECEIVABLE AND MANAGEMENT FEE RECEIVABLE

Medical Receivables

The Company was assigned medical receivables valued at $11,775,000, in connection with the satisfaction of the management fees and termination fees related to a Termination and Replacement Agreement dated May 23, 2005. The balance of the medical receivables as of March 31, 2007 was $3,431,000.

Accounts Receivable and Management Fee Receivable

Receivables, net is comprised of the following at March 31, 2007:
(000's Omitted)

	Gross Receivable	Allowance for doubtful accounts	Net
Receivables from equipment sales and service contracts	$ 5,499	$ 730	$ 4,769
Receivables from equipment sales and service contracts-related parties	$ 1,035	$ 646	$ 389

Management fee receivables from related medical practices ("PC's")	$ 10,530	$ 3,203	$ 7,327

FONAR CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2007
(UNAUDITED)

NOTE 3 - MEDICAL RECEIVABLES, ACCOUNTS RECEIVABLE AND MANAGEMENT FEE RECEIVABLE (Continued)

Accounts Receivable and Management Fee Receivable (Continued)

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

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

Collection by the Company of its accounts receivable may be impaired by the uncollectibility of the PC's medical fees from third party payors, particularly insurance carriers covering automobile no-fault and workers compensation claims due to longer payment cycles and rigorous informational requirements and certain other disallowed claims. Approximately 39% and 48% of the PC's net revenues for both the nine months ended March 31, 2007 and 2006, respectively, were derived from no-fault and personal injury protection claims. The Company considers the aging of its accounts receivable in determining the amount of allowance for doubtful accounts and contractual allowances. The Company generally takes all legally available steps to collect its receivables. Credit losses associated with the receivables are provided for in the condensed consolidated financial statements and have historically been within management's expectations.

Certain no-fault insurers have raised issues concerning whether the Company's clients the "P.C.'s" are in compliance with certain laws, including, but not limited to, laws governing their corporate structure and/or licensing, their entitlement or standing to seek and/or obtain no-fault benefits, and/or laws prohibiting the corporate practice of medicine, fee-splitting and/or physician self referrals. To the extent any claims are asserted against the P.C.'s, the settlement of such claims could result in the P.C.'s waiving their rights to collect certain of their insurance claims. Management believes that the company and the P.C.'s are not in violation of any of the above mentioned laws. Since the resolution or settlement of these claims with the insurance companies could have a material impact on the collection of management fees by the Company from its P.C.'s, the Company has provided reserves for uncollectable fees related to this matter.

FONAR CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2007
(UNAUDITED)

NOTE 3 - MEDICAL RECEIVABLES, ACCOUNTS RECEIVABLE AND MANAGEMENT FEE RECEIVABLE

(Continued)

Accounts Receivable and Management Fee Receivable (Continued)

On February 8, 2006, the Deficit Reduction Act of 2005 ("DRA") was signed into law by President George W. Bush. The DRA would result in caps on Medicare and Medicaid payment rates for most imaging services, including MRI and CT, furnished in physicians' offices and other non-hospital based settings. Under the cap, payments for these imaging services could not exceed the hospital outpatient payment rates for those services. This change is to apply to services furnished by the P.C.'s on or after January 1, 2007. Although the professional corporations managed by HCMA bill for scans on a "global" basis, which means a single fee per scan, the limitation is applicable only to the technical component of the services, which is the payment or portion of the payment attributable to the non-professional services. If the fee for the technical component of the service (without including geographic adjustments) exceeds the hospital outpatient payment amount for the service (also without including geographic adjustments), under the Physician Fee Schedule, then the payment would be limited to the Physician Fee Schedule rate. Based on the Company's scan volumes for 2006, the Company estimates that the implementation of the reimbursement reduction contained in the DRA may have the impact of reducing the Company's management fee revenues by approximately $800,000 annually.

Currently, a statute in the State of Florida requires all drivers, licensed in the State of Florida, to carry a $10,000 no-fault insurance policy covering personal injury protection benefits. This statute is due to expire in October 2007 unless extended by legislative actions. Management does not believe that the expiration of this statute will have a material impact on the Company's condensed consolidated financial position or results of consolidated operations in the future.

While the Company has prepared certain estimates of the impact of the above discussed changes and possible changes, it is not possible to fully quantify their impact on its business. There can be no assurance that the impact of these changes will not be greater than estimated or that any future health care legislation or reimbursement changes will not adversely affect the Company's business.

Net revenues from management and other fees charged to the related P.C's accounted for approximately 36.9% and 34.3% of the condensed consolidated net revenues for the nine months ended March 31, 2007 and 2006, respectively. Product sales and service repair fees from related parties amounted to approximately 3.6% and 13.1% of condensed consolidated net revenues for the nine months ended March 31, 2007 and 2006, respectively.

FONAR CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2007
(UNAUDITED)

NOTE 3 - MEDICAL RECEIVABLES, ACCOUNTS RECEIVABLE AND MANAGEMENT FEE RECEIVABLE (Continued)

Unaudited Financial Information of Unconsolidated Managed Medical Practices

Summarized income statement data for the three months ended March 31, 2007 and 2006 related to the unconsolidated medical practices managed by the Company is as follows:

(000's omitted) (Income Tax-Cash Basis)
For the three months ended March 31,

	2007	2006
Patient Revenue - Net	$4,799	$4,189
Income from Operations	$ 228	$ 13
Net Income (Loss)	$ 7	$ (183)

Summarized income statement data for the nine months ended March 31, 2007 and 2006 related to the unconsolidated medical practices managed by the Company is as follows:

(000's omitted) (Income Tax-Cash Basis)
For the nine months ended March 31,

	2007	2006
Patient Revenue - Net	$14,586	$12,587
Income from Operations	$ 747	$ 123
Net Income (Loss)	$ 55	$ (497)

NOTE 4 - INVENTORIES

Inventories included in the accompanying condensed consolidated balance sheet at March 31, 2007 consist of:

	(000's omitted)
Purchased parts, components and supplies	$ 3,491
Work-in-process	2,658
	$ 6,149

FONAR CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2007
(UNAUDITED)

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

1) Information relating to uncompleted contracts as of March 31, 2007 is as follows:

	(000's omitted)
Costs incurred on uncompleted Contracts	$ 4,957
Estimated earnings	1,725

	6,682
Less: Billings to date	8,115
	$(1,433)

Included in the accompanying condensed consolidated balance sheet at March 31, 2007 under the following captions:

Costs and estimated earnings in excess of billings on uncompleted contracts	$ 209
Less: billings in excess of costs and estimated earnings on uncompleted contracts	1,642
	$(1,433)

2) Customer advances consist of the following as of March 31, 2007:

	Total	Related Party	Other
Total Advances	$ 19,425	$ 42	$ 19,383
Less: Advances on contracts under construction	8,115	--	8,115
	$ 11,310	$ 42	$ 11,268

NOTE 6 -STOCKHOLDERS' EQUITY

Common Stock

During the three months ended March 31, 2007:

a) The Company issued 5,813 shares of common stock for costs and expenses of 39, 821.

b) The Company cancelled 1,200 shares of Common Stock for option notes receivable of 42,300.

FONAR CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 6 -STOCKHOLDERS' EQUITY (Continued)

Common Stock (Continued)

During the nine months ended March 31, 2007:

a) The Company issued 5,030 shares of common stock to employees as compensation valued at $41,699 under stock bonus plan.

b) The Company issued 7,000 shares of common stock to consultants and others valued at $78,200.

c) The Company issued 214,915 shares of common stock for costs and expenses of $1,839,010.

d) The Company issued 3,680 shares of common stock upon the exercise of stock options resulting in proceeds of $49,680.

e) The Company issued 43,600 shares of common stock resulting in proceeds of $372,760.

f) The Company cancelled 1,200 shares of Common Stock for option notes receivable of 42,300.

The Company pays premiums for life insurance on its Chief Executive Officer. The insurance policies were owned by a life insurance trust. The cash surrender value of the life insurance policies, in the approximate amount of $1.2 million, was contributed to capital during the first quarter of 2007 pursuant to a split dollar agreement.

NOTE 7 - OTHER CURRENT LIABILITIES

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

(000's omitted)

	March 31, 2007	June 30, 2006
Royalties	$ 615	$ 716
Accrued salaries, commissions si and payroll taxes	1,353	1,146
Accrued interest	535	535
Litigation judgements	193	193
Sales tax payable	2,192	2,181
Other	1,611	1,331
	$ 6,499	$ 6,102

FONAR CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 8 -SALE OF PHYSICAL MEDICINE MANAGEMENT BUSINESS

On July 28, 2005 Fonar, HMCA and Dynamic entered into an Asset Purchase Agreement with Health Plus Management Services, L.L.C. ("Health Plus"), pursuant to which HMCA and its subsidiary Dynamic sold to Health Plus the portion of their business which was engaged in the business of managing physical therapy and rehabilitation facilities, together with the assets used in the conduct of such business.

The assets sold consisted principally of the management agreements with the physical therapy and rehabilitation facility management business, the physical therapy equipment, a portion of the accounts receivable and furniture and fixtures the Company provided to the physical therapy and rehabilitation facilities.

The purchase price under the Asset Purchase Agreement was $6.6 million, payable pursuant to a promissory note (the "note") in 120 monthly installments commencing on August 28, 2005. The first twelve installments are interest only and the remaining 108 payments will consist of equal installments of principal and interest in the amount of $76,014 each. The note is secured by a first lien on all of the assets of Health Plus, including its accounts receivable. The Note is subject to prepayment provisions to the extent Health Plus resells all or part of the assets and business or utilizes the assets sold as collateral in any debt financing. The note provides for interest at 5% per annum. The fair value assigned to the note was $6,078,068 reflecting a discount of $521,932 for the below market interest rate. The Company recorded a loss of $143,598 on this transaction during the year ended June 30, 2006.

The two principals of Health Plus were employed by HMCA and Dynamic up to the time of the closing of the business. In consideration for the termination of their employment agreement, these two individuals each became entitled to receive $800,000. In addition, each became entitled to receive $200,000 for collection services to be provided on behalf of HMCA and Dynamic with respect to a portion of the accounts receivable of certain physical therapy and rehabilitation facilities which arose during the period when HMCA was engaged in the management of those facilities. The $1,000,000 payable to each of these individuals was satisfied in shares of Fonar common stock in 2006.

For accounting purposes in accordance with accounting principles generally accepted in the United States of America, the Company determined that the classification of the disposed business described above as discontinued operations would not be appropriate. Accordingly, the operating results of the disposed business have been included in continuing operations in the accompanying condensed consolidated financial statements.

FONAR CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2007
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NOTE 9 - SALE OF SUBSIDIARY

On January 31, 2006, the Company sold 100% of the stock of Tallahassee Magnetic Resonance Imaging, P.A. to Raymond V. Damadian for a diminimus amount since the liabilities exceed the assets. No gain or loss was recognized on this sale. Revenue recognized from this entity totaled $590,883 for the nine months ended March 31, 2006.

NOTE 10 - SEGMENT AND RELATED INFORMATION

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

The accounting policies of the segments are the same as those described in the summary of significant accounting policies as disclosed in the Company's 10-K as of June 30, 2006. All inter-segment sales are market-based. The Company evaluates performance based on income or loss from operations.

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

(000's omitted)

	Medical Equipment	Physician Management and Diagnostic Imaging Services	Totals
For the three months ended March 31, 2007:			
Net revenues from external customers	$ 5,778	$ 3,004	$ 8,782
Inter-segment net revenues	$ 269	$ -	$ 269
Foreign Revenue	$ 1,756	$ -	$ 1,756
Loss from operations	$ (4,718)	$ (597)	$ (5,315)
Depreciation and amortization	$ 391	$ 275	$ 666
Compensatory element of stock issuances	$ -	$ -	$ -
Capital expenditures	$ 415	$ 81	$ 496
For the three months ended March 31, 2006:			
Net revenues from external customers	$ 4,011	$ 3,092	$ 7,103
Inter-segment net revenues	$ 152	$ -	$ 152
Foreign Revenue	$ 1,200	$ -	$ 1,200
Loss from operations	$ (6,290)	$ (1,068)	$ (7,358)
Depreciation and amortization	$ 498	$ 273	$ 771
Compensatory element of stock issuances	$ 254	$ 14	$ 268
Capital expenditures	$ 413	$ 529	$ 942

FONAR CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 10 - SEGMENT AND RELATED INFORMATION (Continued)

(000's omitted)

	Medical Equipment	Physician Management and Diagnostic Imaging Services	Totals
For the nine months ended March 31, 2007:			
Net revenues from external customers	$ 15,290	$ 8,947	$ 24,237
Inter-segment net revenues	$ 782	$ -	$ 782
Foreign Revenue	$ 2,236	$ -	$ 2,236
Loss from operations	$(15,330)	$ (1,475)	$(16,805)
Depreciation and amortization	$ 1,164	$ 823	$ 1,987
Compensatory element of stock issuances	$ 116	$ 5	$ 121
Capital expenditures	$ 1,098	$ 137	$ 1,235
Identifiable assets	$ 26,030	$ 22,449	$ 48,479

For the nine months ended March 31, 2006:

Net revenues from external customers	$ 17,623	$ 10,174	$ 27,797
Inter-segment net revenues	$ 429	$ -	$ 429
Foreign Revenue	$ 2,700	$ -	$ 2,700
Income from operations	$(16,846)	$ (4,090)	$(20,936)
Depreciation and amortization	$ 1,497	$ 933	$ 2,430
Compensatory element of stock issuances	$ 1,010	$ 327	$ 1,337
Termination Costs paid with Common Stock	$ -	$ 1,600	$ 1,600
Capital expenditures	$ 1,090	$ 1,430	$ 2,520
Identifiable assets - June 30, 2006	$ 31,264	$ 25,965	$ 57,229

NOTE 11 - SUPPLEMENTAL CASH FLOW INFORMATION

During the nine months ended March 31, 2007 and March 31, 2006, the Company paid $203,000 and $214,000 for interest, respectively.

Non-Cash Transaction.

During the nine months ended March 31, 2007:

a) The Company recorded the cash surrender value of the split dollar life insurance policies of $1,234,000 to additional paid in capital.

FONAR CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2007
(UNAUDITED)

NOTE 12 - SUBSEQUENT EVENTS

Company's Common Stock Meets NASDAQ's Continuing Listing Requirements

The Company received written notification from The Nasdaq Stock Market on December 22, 2005 that the bid price of its common stock for the last 30 consecutive trading days had closed below the minimum $1.00 per share required for continued listing under Nasdaq Marketplace Rule 4310(c)(4) (the "Rule"). Pursuant to Nasdaq Marketplace Rule 4310(c)(8)(D), the Company has been provided an initial period of 180 calendar days, or until June 20, 2006, to regain compliance. The notice states that the Company has achieved compliance with the Rule if at any time before June 20, 2006 the bid price of the Company's common stock closes at $1.00 per share or more for a minimum of 10 consecutive business days. The Company had been granted an extension to achieve compliance until December 18, 2006.

On December 19, 2006, the Company received a Nasdaq Staff Determination indicating that the Company still fails to comply with the minimum bid price requirement for continued listing and therefore is subject to delisting from the Nasdaq Capital Market. The Company has requested a hearing before a Nasdaq Listing Qualifications Panel to review the staff determination and presented their plan for a reverse stock split at a ratio of 1:25 (one new share for every 25 shares) of its outstanding common stock and all other classes of its outstanding stock.

As a result of the hearing held before the NASDAQ Listing Qualifications Panel ("Panel") on February 15, 2007, FONAR's request for continued listing on The NASDAQ Stock Market was granted, subject to the condition that on or before May 1, 2007, the Company must have evidenced a closing bid price of $1.00 or more for a minimum of ten consecutive trading days, which condition has been satisfied. The Panel's decision was based on its determination that the reverse split to be presented at the Annual Meeting on April 16, 2007, when implemented, would be likely to cure the bid price deficiency and allow the Company to maintain compliance for the longer term. Accordingly, the company has effected a reverse stock split as of April 17, 2007.

Common Stock

During the period from April 1, 2007 through April 30, 2007:

a) The Company issued 4,000 shares of common stock for costs and expenses of $22,868.

FONAR CORPORATION AND SUBSIDIARIES

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

For the nine month period ended March 31, 2007, we reported a net loss of $17.0 million on revenues of $24.2 million as compared to net loss of $21.0 million on revenues of $27.8 million for the nine month period ended March 31, 2006.

For the three month period ended March 31, 2007 we reported a net loss of $5.4 million on revenues of $8.8 million as compared to net loss of $7.4 million on revenues of $7.1 million for the three month period ended March 31, 2006.

The Company notes improvement in both its net loss and revenue for the quarter ending March 31, 2007 as compared to the quarter ended March 31, 2006. Net losses improved by 26.6%, ($5.4 million) as compared to ($7.4 million), on a revenue increase of 23.6%, to $8.8 million from $7.1 million. Particularly noteworthy was that the revenues for the quarter ending March 31, 2007 accounted for 36.2% of the revenues of the nine month period ending March 31, 2007.

There was recent increased sales activity which management believes is attributable to a general increase in utilization of MRI, the increase in demand for Upright(TM) scans and the reduction of uncertainty of the impact of the Deficit Reduction Act ("DRA"). A recent survey of Fonar Upright(TM) customers shows that the DRA has not had a substantial impact on revenues and has been more than offset by an increase in utilization of MRI and the increased demand for Upright(TM) imaging technology.

In addition, we are planning to expand our sales force, both in terms of hiring more sales personnel and establishing a network of domestic distributors (we already use distributors for foreign sales) under the direction of our internal sales force.

We also are monitoring the performance of our existing users in order to establish teams to assist underperforming customers improve their scan volume. In addition, we have held seminars to assist customers in their marketing efforts and are in the process of developing a web site to assist our customers in their marketing efforts.

The number of units sold was 8 during the first nine months of fiscal 2007 as compared to 13 for the first nine months of fiscal 2006.

Importantly, we are beginning to penetrate the hospital market. For the 2006 fiscal year, two Fonar Upright(TM) MRI scanners were sold to hospitals, one of which is a member of a chain of hospitals. In the first nine months of fiscal 2007, we sold one Fonar Upright(TM) MRI scanner to a hospital. The Fonar Upright(TM) MRI scanner is the only scanner which enables weight-bearing scans of the spine, which is critical in making a correct diagnosis of spine diseases such as low back pain and therefore the key to performing the correct surgery of the spine.

Forward Looking Statements

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

Results of Operations

The Company operates in two industry segments: the manufacture and servicing of medical (MRI) equipment, the Company's traditional business which is conducted directly by Fonar, and diagnostic facilities management services, which is conducted through Fonar's wholly-owned subsidiary, Health Management Corporation of America, which we also refer to as HMCA. During July 2005 HMCA sold the portion of its business engaged in the management of physical therapy and rehabilitation facilities.

Trends in the third quarter of fiscal 2007 include an increase in product sales revenues. Sales orders for Upright(TM) MRI scanners, decreased from 13 in the first nine months of fiscal 2006 to 8 in the first nine month of 2007. Although unrelated party sales revenues increased from $12.7 million in the first nine months of fiscal 2006 to $14.4 million in the first nine months of fiscal 2007, unrelated party scanner sales revenues increased from $7.1 million in fiscal 2006 to $7.6 million in fiscal 2007. (The inconsistency between sales orders and sales revenues is a result of our recognition of revenues on the "percentage of completion" basis, which means revenues are recognized as the scanner is manufactured). Related party scanner sales revenues decreased in fiscal 2007, from $2.9 million for the nine months ended March 31, 2006 to $143,000 for the nine months ended March 31, 2007. The Company will continue to focus on increased marketing efforts, including advertising, marketing and adding additional sales personnel and distributors, to improve sales performance in the remaining fiscal 2007. During the fiscal 2007, the Company also hired an additional advertising and marketing executive, who had previously been associated with our independent advertising agency.

For the three month period ended March 31, 2007, as compared to the three month period ended March 31, 2006, overall revenues from MRI product sales increased 91% ($3.2 million compared to $1.7 million). Unrelated party scanner sales ($3.2 million compared to $1.3 million) increased at a rate of 151% and related party scanner sales ($1,000 compared to $397,000) decreased 99.7%. Service revenues, increased by 11.3% ($2.3 million compared to $2.1 million) because of additional customers entering into service agreements with Fonar for their scanners following the expiration of the warranty period on their equipment. Overall, for the third quarter of fiscal 2007, revenues for the medical equipment segment increased by 44.1% to $5.8 million from $4.0 million for the third quarter of fiscal 2006. The revenues generated by HMCA decreased, by 2.8% to $3.0 million for the third quarter of fiscal 2007 as compared to $3.1 million for the third quarter of fiscal 2006.

For the nine month period ended March 31, 2007, as compared to the nine month period ended March 31, 2006, overall revenues from MRI product sales decreased 22.7% ($7.8 million compared to $10.0 million) as a result of a decline in related party sales revenues. Unrelated party scanner sales revenues ($7.6 million compared to $7.1 million) increased at a rate of 6.9%, but related party scanner sales ($143 thousand compared to $2.9 million) decreased 95.1%. Service revenues increased by 18.4% ($7.5 million compared to $6.4 million) because of additional customers entering into service agreements with Fonar for their scanners following the expiration of the warranty period on their equipment. Overall, for the first nine months of fiscal 2007, revenues for the medical equipment segment decreased by 13.2% to $15.3 million from $17.6 million for the first nine months of fiscal 2006. The revenues generated by HMCA also decreased, by 12.1% to $8.9 million for the first nine months of fiscal 2007 as compared to $10.2 million for the first nine months of fiscal 2006. The decrease in revenues recognized by HMCA resulted primarily from the sale of HMCA's business of managing physical therapy and rehabilitation centers during July 2005.

There were approximately $2.2 million in foreign revenues for the first nine months of fiscal 2007 as compared to approximately $2.7 million in foreign revenues for the first nine months of fiscal 2006, representing a decrease in foreign revenues of 18.5%. The Company is making a concerted effort to increase foreign sales, most recently through its European distributor and attending a foreign trade show.

Nevertheless, notwithstanding the decrease in our total net revenues of 12.8% from $27.8 million in the first nine months of fiscal 2006 to $24.2 million in the first nine months of fiscal 2007, these decreases were accompanied by a decrease of 15.8% in total costs and expenses from $48.7 million in the first nine months of fiscal 2006 compared to $41.0 million in the first nine months of fiscal 2007. As a result, our operating loss decreased from $20.9 million in the first nine months of fiscal 2006 to $16.8 million in the first nine months of fiscal 2007.

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

We believe the decrease in product sales revenues reflect the large variation in sales revenue that is typical of the sale of high unit cost capital equipment, which variation is characteristic of Fonar's 28 year experience selling MRI scanning systems. We also believe that the Deficit Reduction Act may also have contributed to the decrease in product sales revenues.

Service and repair revenues increased by 9.8%, from $2.3 million for the third quarter of fiscal 2006 to $2.6 million for the third quarter of fiscal 2007.

Service and repair revenues increased by 18.4% from $6.4 million for the first nine months of fiscal 2006 to $7.5 million for the first nine months of fiscal 2007.

The increases in service and repair revenues are occurring because after the warranty on the MRI scanner expires, the owner will ordinarily enter into a service contract with us to assure continued coverage. We anticipate that for this reason there will continue to be increases in service revenues as warranties on installed scanners expire over time.

Costs related to product sales increased by 38.8% from $2.3 million in the third quarter of fiscal 2006 to $3.1 million in the third quarter of 2007, reflecting the corresponding increase in product sales revenues. Costs related to providing service decreased by 8.0% from $1.4 million in the third quarter of fiscal 2006 to $1.3 million in the third quarter of 2007, notwithstanding the increase in service revenues.

Costs related to product sales decreased by 19.4% from $10.0 million in the first nine months of fiscal 2006 to $8.1 million in the first nine months of 2007, reflecting the corresponding decrease in product sales revenues. Costs related to providing service decreased by 8.0% from $4.2 million in the first nine months of fiscal 2006 to $3.9 million in the first nine months of 2007, notwithstanding the increase in service revenues.

In brief, costs are incurred concurrently with revenues in accordance with the percentage of completion method.

Service and repair revenues increased at a materially higher rate than the costs related to providing service and repairs. In fact, such costs decreased by 8.0% from $4.2 million for the first nine months of fiscal 2006 to $3.9 million for the first nine months of fiscal 2007. Service contract prices are fixed for the term of the contract, which are usually for a term of one year. We believe that an important factor in keeping service costs down is our ability to monitor the performance of customers' scanners from our facilities in Melville on a daily basis and to detect and repair any irregularities before more serious problems result. We also believe the low cost of providing service reflects the high quality of our products.

Overall, our operating loss for our medical equipment segment was $15.3 million for the first nine months of fiscal 2007 as compared to operating loss of $16.8 million for the first nine months of fiscal 2006.

HMCA revenues decreased slightly in the third quarter of fiscal 2007, by 2.8% to $3.0 million from $3.1 million for the third quarter of fiscal 2006. For the first nine months of fiscal 2007, HMCA revenues decreased by 12.1% to $8.9 million from $10.2 million for the first nine months of fiscal 2006. HMCA is seeking to increase revenues from the MRI facilities by continuing its program of replacing older scanners at the sites we manage with Upright(TM) MRI scanners. We now manage ten sites, as compared to nine sites at March 31, 2006, equipped with Upright(TM) MRI scanners. HMCA experienced an operating loss of 1.5 million for the first nine months of fiscal 2007 compared to operating loss of $4.1 million for the first nine months of fiscal 2006. The greater loss in the first nine months of fiscal 2006 was principally the result of a payment of $1.6 million for the termination of two employment agreements in connection with the sale by HMCA of its physical therapy and rehabilitation facility management business and the loss of revenues resulting from the sale of that business during the first quarter of fiscal 2006.

HMCA cost of revenues for the third quarter of fiscal 2007 increased to $2.2 million as compared to $2.1 million for the third quarter of fiscal 2006. HMCA cost of revenues for the first nine months of fiscal 2007 decreased to $6.5 million as compared to $7.3 million for the first nine months of fiscal 2006. Rental costs were reduced in fiscal 2007 while repairs and amortization costs where higher in fiscal 2006.

On February 8, 2006, the Deficit Reduction Act of 2005 ("DRA") was signed into law by President George W. Bush. The DRA, which went into effect in the beginning of calendar 2007, places caps on Medicare and Medicaid payment rates for most imaging services, including MRI and CT, furnished in physicians' offices and other non-hospital based settings. Under the cap, payments for these imaging services can not exceed the hospital outpatient payment rates for those services. This change applies to services furnished by the professional corporations managed by HMCA on or after January 1, 2007. Although the professional corporations managed by HCMA bill for scans on a "global" basis, which means a single fee per scan, the limitation is applicable only to the technical component of the services, which is the payment or portion of the payment attributable to the non-professional services. If the fee for the technical component of the service (without including geographic adjustments) exceeds the hospital outpatient payment amount for the service (also without including geographic adjustments), under the Physician Fee Schedule, then the payment would be limited to the Physician Fee Schedule rate. Based on our scan volume for 2006, our estimate of the implementation of the reimbursement reduction contained in the DRA may have the impact of reducing our management fee revenues by approximately $800,000 annually. We believe that the Upright(TM) MRI is uniquely designed to facilitate increased volumes to compensate any reductions due to the DRA. The Upright(TM) MRI with multiple positions is dynamic MRI as compared with the static conventional recumbent-only single position MRI.

Currently, a statute in the State of Florida requires all drivers licensed in the State of Florida to carry a $10,000 no-fault insurance policy covering personal injury protection benefits. This statute is due to expire in October 2007 unless it is extended by legislative action. Management does not believe that the expiration of this statute will have a material impact on our consolidated financial position or results of consolidated operations.

While we have prepared certain estimates of the impact of the above discussed changes and possible changes, it is not possible to fully quantify their impact on our business. There can be no assurance that the impact of these changes will not be greater than estimated or that any future health care legislation or reimbursement changes will not adversely affect our business.

Sale of Physical Therapy and Rehabilitation Facility Management Business

Notwithstanding our continuing efforts to increase revenues from the management of MRI scanning facilities, HMCA's revenues declined because of the sale of its business of managing physical therapy and rehabilitation practices. The sale was completed in fiscal 2006 on July 28, 2005. This sale was made in connection with HMCA's decision to focus on the management of diagnostic imaging facilities.

The sale was made pursuant to an asset purchase agreement to Health Plus Management Services, L.L.C., which we also refer to as Health Plus. There is no material relationship between Health Plus and Fonar, HMCA, or any of their respective subsidiaries, directors or officers, or associates of any such person. The two principals of Health Plus were employed by HMCA up to the time of the closing of the transaction. In consideration for the termination of their employment agreements, these two individuals each became entitled to receive $800,000. In addition, each became entitled to receive $200,000 for billing and collection services to be provided on behalf of HMCA with respect to a portion of the accounts receivable of certain physical therapy and rehabilitation facilities which arose during the period when we were engaged in the management of those facilities. The $1,000,000 payable to each of these individuals was payable at our option in shares of Fonar common stock.

The purchase price under the asset purchase agreement was $6.6 million, payable pursuant to a promissory note in 120 monthly installments commencing on August 28, 2005. The first twelve installments are interest only and the remaining 108 payments will consist of equal installments of principal and interest in the amount of $76,014 each. The note is subject to prepayment provisions to the extent Health Plus resells all or part of the assets and business or utilizes the assets sold as collateral in any debt financing. A loss from the sale of $143,598 has been recorded during the quarter ended September 30, 2005. The note provides for interest at 5% per annum. The $6.6 million note was valued at $6,078,068 as a result of a discount for the below market interest rate.

As our consolidated revenues increased by 23.6% to $8.8 million for the third quarter of fiscal 2007 from $7.1 million for the third quarter of fiscal 2006, the total costs and expenses decreased by 2.5% to $14.1 million for the third quarter of fiscal 2007 from $14.5 million for the third quarter of fiscal 2006. For the first nine months of fiscal 2007 the consolidated revenues decreased by 12.8% to $24.2 million from $27.8 million for the first nine months of fiscal 2006, the total costs and expenses decreased by 15.8% to $41.0 million for the first nine months of fiscal 2007 from $48.7 million for the first nine months of fiscal 2006.

Selling, general and administrative expenses decreased by 1.6% from $17.9 million in the first nine months of fiscal 2007 from $18.2 million in the first nine months of fiscal 2006. The compensatory element of stock issuances decreased by 90.9% from $1.3 million in the first nine months of fiscal 2006 to $121,000 in the first nine months of fiscal 2007 which is now included in selling general and administrative expenses. This primarily reflected a dramatically lesser use of Fonar's stock in lieu of cash to pay employees, consultants and professionals for services.

Research and development expenses decreased by 17.7 % to $4.3 million for the first nine months of fiscal 2007 as compared to $5.2 million for the first nine months of fiscal 2006.

Interest expense in the first nine months of fiscal 2007 decreased by 5.1% to $203,000 from $214,000 for the first nine months of fiscal 2006.

Inventories decreased by 13.1% to $6.1 million at March 31, 2007 as compared to $7.1 million at June 30, 2006 as the Company's product sales revenues decreased and we decreased our purchase of raw materials and components.

Costs and estimated earnings in excess of billings on uncompleted contracts decreased by 92.9% to $209,000 at March 31, 2007 from $3.0 million at June 30, 2006. This decrease resulted from our receipt of installment payments upon delivery to customers whose sites were prepared to receive deliveries.

Management fee and medical receivables and accounts receivable decreased by 7.6% to $15.9 million at March 31, 2007 from $17.2 million at June 30, 2006, primarily due to collections on the Company's medical receivables offset by an increase in accounts receivable from the medical segment.

Our operating loss and net loss were $16.8 million and $17.0 million, respectively, for the first nine months of fiscal 2007 as compared to operating and net losses of $20.9 million and $21.0 million, respectively, for the first nine months of fiscal 2006.

The overall trends reflected in the results of operations for the first nine months of fiscal 2007 are a decrease in revenues from product sales, as compared to the first nine months of fiscal 2006 ($7.8 million for the first nine months of fiscal 2007 as compared to $10.0 million for the first nine months of fiscal 2006), and a decrease in MRI equipment segment revenues relative to HMCA revenues ($15.3 million or 63.1% from the MRI equipment segment as compared to $8.9 million or 36.9% from HMCA, for the first nine months of fiscal 2007, as compared to $17.6 million or 63% from the MRI equipment segment and $10.2 million or 37%, from HMCA, for the first nine months of fiscal 2006). In addition, we experienced a decrease in unrelated party sales relative to related party sales in our medical equipment product sales ($7.6 million or 98% to unrelated parties and $143,000 or 2% to related parties for the first nine months of fiscal 2007 as compared to $7.1 million, or 71% to unrelated parties and $2.9 million or 29% to related parties for the first nine months of fiscal 2006).

We are committed to reversing the trends we have experienced in the first nine months in fiscal 2007. Nevertheless, factors beyond our control, such as the timing and rate of market growth which depend on economic conditions, payor reimbursement rates and policies, and unexpected expenditures or the timing of such expenditures, make it impossible to forecast future operating results. We believe we are pursuing the correct policies which should prove successful in improving the Company's operating results.

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

The Company's Upright(TM) MRI scanner, which operates at 6000 gauss (0.6 Tesla) field strength, allows patients to be scanned while standing or reclining. As a result, for the first time, MRI is able to be used to show abnormalities and injuries under full weight-bearing conditions, particularly the spine and joints. A floor-recessed elevator brings the patient to the height appropriate for the targeted image region. A custom- built adjustable bed will allow patients to sit or lie on their backs, sides or stomachs at any angle. Full-range-of-motion studies of the joints in virtually any direction will be possible, an especially promising feature for sports injuries.

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

The Fonar 360(TM) is an enlarged room sized magnet in which the floor, ceiling and walls of the scan room are part of the magnet frame. This is made possible by Fonar's patented Iron-Frame(TM) technology which allows the Company's engineers to control, contour and direct the magnet's lines of flux in the patient gap where wanted and almost none outside of the steel of the magnet where not wanted. Consequently, this scanner allows surgeons and other interventional physicians to walk inside the magnet and achieve 360 degree access to the patient to perform interventional procedures.

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

In the future, we expect the Fonar 360(TM) to function as an interventional MRI. The enlarged room sized magnet and 360 access to the patient afforded by the Fonar 360(TM) would permit surgeons to walk into the magnet and perform interventions on the patient inside the magnet. Most importantly the exceptional quality of the MRI image and its capacity to exhibit tissue detail on the image, can then be obtained real time during the procedure to guide the interventionalist. Thus surgical instruments, needles, catheters, endoscopes and the like could be introduced directly into the human body and guided to the malignant lesion by means of the MRI image. The number of inoperable lesions should be greatly reduced by the availability of this new capability. Most importantly treatment can be carried directly to the target tissue. The interventional features of the Fonar 360(TM) are expected to be implemented by Oxford Nuffield Orthopedic Center in Oxford U.K. in the near future. A full range of MRI compatible surgical instruments using ceramic cutting tools and beryllium-copper materials are available commercially.

The Company expects marked demand for its most commanding MRI products, the Upright(TM) MRI and the Fonar 360(TM), first for their exceptional features in patient diagnosis and treatment. These scanners additionally provide improved image quality and higher imaging speed because of their higher field strength of ..6 Tesla. The geometry of the Upright(TM) MRI as compared to a single coil, or multiple coils on only one axis and its transverse magnetic field enables the use of two detector rf coils operating in quadrature which increases the Upright(TM) MRI signal to noise ratio by 40%, providing a signal to noise ratio equal to a .84T recumbent only MRI scanner.

Liquidity and Capital Resources

Cash, cash equivalents and marketable securities decreased from $9.5 million at June 30, 2006 to $5.8 million at March 31, 2007. Principal uses of cash during the first nine months of fiscal 2007 included capital expenditures for property and equipment of $332,000, repayment of long-term debt and capital lease obligations in the amount of $155,000, capitalized software development costs of $497,000 and capitalized patent and copyright costs of $406,000, and a decrease in accounts payable of $995,000.

Marketable securities approximated $3.0 million as at March 31, 2007, as compared to $4.9 million at June 30, 2006. This reduction represents the maturation of marketable securities which have not been reinvested and the proceeds of which are available to fund operations if needed. At March 31, 2007, our investments in U.S. Government obligations were $1.5 million, our investments in corporate and government agency bonds were $1.4 million and our investments in certificates of deposit and deposit notes were $100,000. The investments made have had the intended effect of maintaining a stable investment portfolio.

Cash used in operating activities for the first nine months of fiscal 2007 approximated 2.2 million. Cash used in operating activities was attributable primarily to the net loss of $17.0 million and the decrease in accounts payable of $995,000, which were offset by a decrease in costs and estimated earnings in excess of billings on uncompleted contracts of $2.7 million, a decrease in inventories of $928,000 and the issuance of stock for compensation, costs and expenses in lieu of cash in the amount of $2.0 million.

Cash provided by investing activities for the first nine months of fiscal 2007 approximated $884,000. The principal source of cash from investing activities during the first nine months of fiscal 2007 consisted of the sale of marketable securities of $2.1 million, offset by expenditures for property and equipment of approximately $332,000 and capitalized software and patent costs of approximately $903,000.

Cash used in financing activities for the first nine months of fiscal 2007 approximated $384,000. The sources of cash from financing activities were net proceeds from exercises of stock options and warrants of $50,000, repayment of notes receivable from employee stockholders of $184,000, and net proceeds from the sale of stock of $373,000. The principal uses of cash in financing activities during the first nine months of fiscal 2007 consisted of repayment of principal on long-term debt and capital lease obligations of approximately $155,000 and distributions to holders of minority interests of $836,000.

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

(000's OMITTED)

Obligation	Total	Due in Less than 1 year	Due in 1-3 years	Due in 4-5 years	Due after 5 years
Long-term debt	$ 548	$ --	$ --	$ --	$ 548
Capital lease Obligation	703	239	376	88	--
Operating Leases	7,737	2,431	3,034	1,039	1,233
Total cash Obligations	$ 8,988	$ 2,670	$ 3,410	$ 1,127	$ 1,781

Total liabilities increased by 16.8% to $30.5 million at March 31, 2007 from $26.1 million at June 30, 2006.

We experienced a decrease in long-term debt from $1.2 million at June 30, 2006 to $1.0 million at March 31, 2006, an increase in unearned revenue on service contracts from $4.8 million to $5.7 million at June 30, 2006 to March 31, 2007, a decrease in billings in excess of costs and estimated earnings on uncompleted contracts from $3.1 million at June 30, 2006 to $1.6 million at March 31, 2007, a decrease in accounts payable from $4.9 million at June 30, 2006 to $3.9 million at March 31, 2007, an increase in customer advances from $5.5 million at June 30, 2006 to $11.3 at March 31, 2007.

As of March 31, 2007, the total of $6.5 million in other current liabilities included primarily accrued salaries and payroll taxes of $1.4 million, accrued royalties of $615,000 and excise and sales taxes of $2.2 million.

Our working capital approximated $923,000 as of March 31, 2007, as compared to working capital of $14.2 million as of June 30, 2006, decreasing by 93.5%. This resulted principally from an increase in current liabilities ($24.6 million at June 30, 2006 as compared to $29.2 million at (March 31, 2007), particularly an increase in customer advances of $5.8 million ($5.5 million at June 30, 2006 as compared to $11.3 million at March 31, 2007), and a decrease in current assets ($38.9 million at June 30, 2006 and $30.2 million at March 31, 2007) including a decrease in cash and cash equivalents and marketable securities of $3.8 million ($9.5 million at June 30, 2006 as compared to $5.7 million at March 31, 2007), a decrease of cost and estimated earnings in excess of billings on uncompleted contracts of $2.7 million ($3.0 million at June 30, 2006 as compared to $209,000 at March 31, 2007) along with a decrease in inventories of approximately $1.0 million ($7.1 million at June 30, 2006 as compared to $6.1 million at March 31, 2007).

With respect to current liabilities, the current portion of long-term debt increased from $234,000 at June 30, 2006 to $239,000 at March 31, 2007, and billings in excess of costs and estimated earnings on uncompleted contracts decreased from $3.1 million at June 30, 2006 to $1.6 million at March 31, 2007. Customer advances increased from $5.5 million at June 30, 2006 to $11.3 million at March 31, 2007 and accounts payable decreased from $4.9 million at June 30, 2006 to $3.9 million at March 31, 2007.

In order to conserve our capital resources, we have issued common stock under our stock bonus and stock option plans to compensate employees and non-employees for services rendered, but to a materially lesser extent than in previous years. In the first nine months of fiscal 2007, the compensatory element of stock issuances was $121,000 as compared to $1.3 million for the first nine months of fiscal 2006. Utilization of equity in lieu of cash compensation improved our liquidity since it increased cash available for other expenditures. In addition, we used stock to pay $ 1.6 million for the termination of two employment agreements terminated in connection with the sale of HMCA's physical therapy and rehabilitation facility management business in the first three months of fiscal 2006.

Fonar's capital resources are expected to improve as Fonar's MRI scanner products gain wider market recognition and acceptance and produce increased product sales. The Company is focusing on increased advertising and marketing to increase demand for its products.

Inventories decreased by approximately $1.0 million ($7.1 million at June 30, 2006 as compared to $6.1 million at March 31, 2007) resulting from a decrease in the purchasing of raw materials and components and in filling our backlog of orders.

Fonar has not committed to making additional capital expenditures in the 2007 fiscal year other than its intention to continue research and development expenditures at current levels.

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

Our principal source of liquidity has been cash flows provided by operations. We currently expect this to continue. At March 31, 2007, we had working capital of $923,000. For the nine months ended March 31, 2007, we incurred a net loss of $17.0 million which included non-cash charges of $4.2 million.

In order to conserve our capital resources we have and will continue to issue, from time to time, common stock and stock options to compensate employees and non-employees for services rendered. The Company is focusing on increased advertising and marketing campaigns and distribution programs to increase the demand for Fonar's products. Management anticipates that Fonar's capital resources will improve as Fonar's MRI scanner products gain wider market recognition and acceptance resulting in increased product sales. If we are not successful with our current marketing efforts to increase sales, then we could experience a shortfall in the cash necessary to sustain operations at their current levels.

At March 31, 2007 cash and marketable securities balance was $5.8 million. Based upon current results of operations, we either need to increase sales, reduce expenses or seek other sources of funds through the issuance of equity or debt financing in order to maintain sufficient funds available to operate through to March 31, 2008.

The Company received written notification from The Nasdaq Stock Market on December 22, 2005 that the bid price of its common stock for the prior 30 consecutive trading days had closed below the minimum $1.00 per share required for continued listing under Nasdaq Marketplace Rule 4310(c)(4) (the "Rule"). Pursuant to Nasdaq Marketplace Rule 4310(c)(8)(D), the Company had been provided an initial period of 180 calendar days, or until June 20, 2006, to regain compliance but since Fonar was then in compliance with NASDAQ's other listing requirements, an extension to December 18, 2006 was granted.

On December 19, 2006 the Company received a Nasdaq Staff Determination indicating that the Company still fails to comply with the minimum bid price requirement for continued listing set forth in the Rule and that its securities are therefore, subject to delisting from the Nasdaq Capital Market. The Company has requested a hearing before a Nasdaq Listing Qualifications Panel to review the Staff Determination which was held on February 15, 2007. As a result of the hearing held before the NASDAQ Listing Qualifications Panel ("Panel"), Fonar's request for continued listing on the NASDAQ Stock Market was granted, subject to the condition that on or before May 1, 2007, the Company must have evidenced a closing bid price of $1.00 or more for a minimum of ten consecutive trading days, which condition has been satisfied. The Panel's decision was based on its determination that the reverse split to be presented at the Annual Meeting on April 16, 2007, when implemented, would be likely to cure the bid price deficiency and allow the Company to maintain compliance for the longer term. Accordingly, the Company has effected a reverse stock split as of April 17, 2007.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our investments are in fixed rate instruments. Below is a tabular presentation of the maturity profile of the fixed rate instruments held by us at March 31, 2007.

INTEREST RATE SENSITIVITY

PRINCIPAL AMOUNT BY EXPECTED MATURITY

WEIGHTED AVERAGE INTEREST RATE

Year of Maturity	Investments in Fixed Rate Instruments	Weighted Average Interest Rate
3/31/08	$ 0	0.00%
3/31/09	1,000,000	3.85%
3/31/10	1,798,062	3.15%
3/31/11	200,000	4.41%
Total:	$ 2,998,062	
Fair Value at 3/31/07	$ 2,905,235	

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

See Note 13 to the consolidated Financial Statements in our Form 10-K as of and for the year ended June 30, 2006 for information on long-term debt.

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

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

(b) Change in internal controls.

The Company continues to enhance its controls and procedures related to the financial reporting process, improvements that were established during the latter part of fiscal 2005. This included hiring an outside consultant to assist with technical accounting and reporting issues, developing more standardized closing procedures and implementing a more formal process for documenting the weekly management meetings to review operating performance and results.

There have been no changes in our internal control over financial reporting that occurred during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1 - Legal Proceedings: There were no material changes in litigation for the first nine months of fiscal 2007.

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

Item 3 - Defaults Upon Senior Securities: None

Item 4 - Submission of Matters to a Vote of Security Holders:

At the Annual Meeting of the Company held on April 16, 2007, the following items were voted upon by the stockholders

1. Election of Directors

a. Raymond V. Damadian	337,219,493	(For)	9,170,995	(Withheld)
b. Claudette J.V. Chan	338,781,982	(For)	7,608,507	(Withheld)
c. Robert J. Janoff	339,918,376	(For)	6,456,129	(Withheld)
d. Charles N. O'Data	340,619,481	(For)	5,755,007	(Withheld)
e. Robert Djerejian	340,625,357	(For)	5,765,132	(Withheld)

2. Authority to Effect Stock Split

252,581,222 (For)
7,501,484 (Against)
39,498 (Abstain)

86,269,284 (Non-Votes)

3. Authority to Effect Reduction of Authorized Shares

253,107,116 (For)
6,973,109 (Against)
40,979 (Abstain)
86,269,284 (Non-Votes)

4. Ratification of Auditors

342,825,556 (For)
2,898,567 (Against)
66,374 (Abstain)

5. Limit on Management Compensation

10,033,145 (For)
249,336,533 (Against)
751,526 (Abstain)
86,269,284 (Non-Votes)

Item 5 - Other Information: None

Item 6 - Exhibits and Reports on Form 8-K: Exhibit 31.1 Certification See Exhibits Exhibit 32.1 Certification See Exhibits 8-K (earnings press release) filed on September 15, 2006 8-K (earnings press release) filed on November 13, 2006 8-K (Nasdaq Staff Determination) filed on December 21, 2006 8-K (earnings press release) filed on February 9, 2007

SIGNATURES

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

FONAR CORPORATION
(Registrant)

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

Dated: May 11, 2007