

FONAR CORP  
Form 10-Q  
May 11, 2015

**FORM 10-Q**

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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

For the quarterly period ended **MARCH 31, 2015**

Commission file number 0-10248

**FONAR CORPORATION**

(Exact name of registrant as specified in its charter)

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

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for shorter period that the registrant was required to submit and post such files. YES  NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of accelerated filer, large accelerated filer or smaller reporting company in Rule 12b-2 of the Exchange Act.(Check one): Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES  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.

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.

<u>Class</u>	<u>Outstanding at April 30, 2015</u>
Common Stock, par value \$.0001	6,050,840
Class B Common Stock, par value \$.0001	146
Class C Common Stock, par value \$.0001	382,513
Class A Preferred Stock, par value \$.0001	313,438

FONAR CORPORATION AND SUBSIDIARIES

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## FONAR CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

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

(UNAUDITED)

## ASSETS

	March 31, 2015	June 30, 2014 *
Cash and cash equivalents	\$7,828	\$9,952
Accounts receivable – net	4,071	4,450
Accounts receivable - related party	30	—
Medical receivable – net	9,037	8,808
Management and other fees receivable – net	14,618	11,970
Management and other fees receivable – related medical practices – net	3,669	3,427
Costs and estimated earnings in excess of billing on uncompleted contracts	681	760
Inventories	2,286	2,444
Prepaid expenses and other current assets	855	1,011
Total Current Assets	43,075	42,822
Deferred income tax asset	5,740	5,740
Property and equipment – net	13,454	15,030
Goodwill	1,767	1,767
Other intangible assets – net	9,653	10,509
Other assets	853	922
Total Assets	\$74,542	\$76,790

\*Condensed from audited financial statements.

See accompanying notes to condensed consolidated financial statements.

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## FONAR CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

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

(UNAUDITED)

## LIABILITIES AND STOCKHOLDERS' EQUITY

	March 31, 2015	June 30, 2014 *
Current Liabilities:		
Current portion of long-term debt and capital leases	\$2,896	\$2,891
Accounts payable	2,304	2,482
Other current liabilities	8,994	9,024
Unearned revenue on service contracts	4,232	4,731
Unearned revenue on service contracts - related party	28	—
Customer advances	1,668	1,927
Billings in excess of costs and estimated earnings on uncompleted contracts	142	142
Total Current Liabilities	20,264	21,197
Long-Term Liabilities:		
Deferred income tax liability	584	584
Due to related medical practices	232	234
Long-term debt and capital leases, less current portion	6,311	8,482
Other liabilities	156	386
Total Long-Term Liabilities	7,283	9,686
Total Liabilities	27,547	30,883

\*Condensed from audited financial statements.

See accompanying notes to condensed consolidated financial statements.

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## FONAR CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

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

(UNAUDITED)

## LIABILITIES AND STOCKHOLDERS' EQUITY (Continued)

	March 31, 2015	June 30, 2014 *
<b>STOCKHOLDERS' EQUITY:</b>		
Class A non-voting preferred stock \$.0001 par value; 453 shares authorized at March 31, 2015 and June 30, 2014, 313 issued and outstanding at March 31, 2015 and June 30, 2014	—	—
Preferred stock \$.001 par value; 567 shares authorized at March 31, 2015 and June 30, 2014, issued and outstanding – none	—	—
Common Stock \$.0001 par value; 8,500 shares authorized at March 31, 2015 and June 30, 2014, 6,062 and 6,057 issued at March 31, 2015 and June 30, 2014, respectively; 6,051 and 6,046 outstanding at March 31, 2015 and June 30, 2014, respectively	1	1
Class B Common Stock (10 votes per share) \$ .0001 par value; 227 shares authorized at March 31, 2015 and June 30, 2014, .146 issued and outstanding at March 31, 2015 and June 30, 2014	—	—
Class C Common Stock (25 votes per share) \$.0001 par value; 567 shares authorized at March 31, 2015 and June 30, 2014, 383 issued and outstanding at March 31, 2015 and June 30, 2014	—	—
Paid-in capital in excess of par value	175,413	175,284
Accumulated deficit	(142,047 )	(149,259 )
Notes receivable from employee stockholders	(33 )	(39 )
Treasury stock, at cost - 12 shares of common stock at March 31, 2015 and June 30, 2014	(675 )	(675 )
Total Fonar Corporation Stockholder Equity	32,659	25,312
Noncontrolling interests	14,336	20,595
Total Stockholders' Equity	46,995	45,907
Total Liabilities and Stockholders' Equity	\$74,542	\$76,790

\*Condensed from audited financial statements.

See accompanying notes to condensed consolidated financial statements.



## FONAR CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

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

(UNAUDITED)

	FOR THE THREE MONTHS ENDED MARCH 31	
	2015	2014
REVENUES		
Product sales – net	\$160	\$478
Service and repair fees – net	2,299	2,518
Service and repair fees – related parties - net	27	27
Patient fee revenue, net of contractual allowances and discounts	7,284	6,090
Provision for bad debts for patient fee	(3,201 )	(2,868 )
Management and other fees – net	8,653	8,538
Management and other fees – related medical practices – net	1,874	2,257
Total Revenues – Net	17,096	17,040
COSTS AND EXPENSES		
Costs related to product sales	352	223
Costs related to service and repair fees	630	623
Costs related to service and repair fees – related parties	7	7
Costs related to patient fee revenue	2,044	1,947
Costs related to management and other fees	5,285	5,327
Costs related to management and other fees – related medical practices	1,284	1,318
Research and development	360	360
Selling, general and administrative	3,706	3,935
Provision for bad debts	762	981
Total Costs and Expenses	14,430	14,721
Income From Operations	2,666	2,319
Interest Expense	(169 )	(203 )
Investment Income	52	57
Other Income	—	39
Income Before Provision for Income Taxes	2,549	2,212
Provision for Income Taxes	30	65
Net Income	2,519	2,147
Net Income - Noncontrolling Interests	(500 )	(408 )
Net Income - Controlling Interests	\$2,019	\$1,739
Net Income Available to Common Stockholders	\$1,888	\$1,625
Net Income Available to Class A Non-Voting Preferred Stockholders	\$98	\$85
Net Income Available to Class C Common Stockholders	\$33	\$29
Basic Net Income Per Common Share Available to Common Stockholders	\$0.31	\$0.27
Diluted Net Income Per Common Share Available to Common Stockholders	\$0.31	\$0.26
Basic and Diluted Income Per Share-Class C Common	\$0.09	\$0.08

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Weighted Average Basic Shares Outstanding-Common Stockholders	6,050	6,022
Weighted Average Diluted Shares Outstanding – Common Stockholders	6,178	6,150
Weighted Average Basic Shares Outstanding – Class C Common	383	383
Weighted Average Diluted Shares Outstanding – Class C Common	383	383

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

## FONAR CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

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

(UNAUDITED)

	FOR THE NINE MONTHS ENDED MARCH 31,	
	2015	2014
<b>REVENUES</b>		
Product sales – net	\$1,806	\$1,261
Service and repair fees – net	7,288	7,578
Service and repair fees – related parties - net	83	83
Patient fee revenue, net of contractual allowances and discounts	20,700	17,811
Provision for bad debts for patient fee	(9,244 )	(7,130 )
Management and other fees – net	26,004	24,955
Management and other fees – related medical practices – net	5,536	6,923
Total Revenues – Net	52,173	51,481
<b>COSTS AND EXPENSES</b>		
Costs related to product sales	1,674	902
Costs related to service and repair fees	1,611	1,755
Costs related to service and repair fees - related parties	18	19
Costs related to patient fee revenue	5,845	5,823
Costs related to management and other fees	15,665	15,591
Costs related to management and other fees – related medical practices	3,893	3,808
Research and development	1,116	1,128
Selling, general and administrative	11,108	12,024
Provision for bad debts	1,540	763
Total Costs and Expenses	42,470	41,813
Income From Operations	9,703	9,668
Interest Expense	(545 )	(682 )
Investment Income	173	178
Other Expense	(2 )	(113 )
Income Before Provision for Income Taxes	9,329	9,051
Provision for Income Taxes	99	235
Net Income	9,230	8,816
Net Income - Noncontrolling Interests	(2,018 )	(2,497 )
Net Income - Controlling Interests	\$7,212	\$6,319
Net Income Available to Common Stockholders	\$6,743	\$5,907
Net Income Available to Class A Non-voting Preferred Stockholders	\$350	\$307
Net Income Available to Class C Common Stockholders	\$119	\$105
Basic Net Income Per Common Share Available to Common Stockholders	\$1.11	\$0.98
Diluted Net Income Per Common Share Available to Common Stockholders	\$1.09	\$0.96
Basic and Diluted Income Per Share - Class C Common	\$0.31	\$0.27
Weighted Average Basic Shares Outstanding – Common Stockholders	6,050	6,002
Weighted Average Diluted Shares Outstanding – Common Stockholders	6,178	6,130
Weighted Average Basic Shares Outstanding – Class C Common	383	383

Weighted Average Diluted Shares Outstanding – Class C Common	383	383
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See accompanying notes to condensed consolidated financial statements (unaudited).

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## FONAR CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

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

(UNAUDITED)

	FOR THE NINE MONTHS ENDED MARCH 31,	
	2015	2014
Cash Flows from Operating Activities:		
Net income	\$9,230	\$8,816
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,665	2,887
Provision for bad debts	10,784	7,894
Non cash considerations	76	407
Stock option exercised	—	31
Compensatory element of stock issuances	53	86
(Increase) decrease in operating assets, net:		
Accounts, management fee and medical receivable(s)	(13,554)	(11,012)
Notes receivable	118	75
Costs and estimated earnings in excess of billings on uncompleted contracts	79	(236 )
Inventories	158	(433 )
Prepaid expenses and other current assets	89	31
Other assets	18	63
Increase (decrease) in operating liabilities, net:		
Accounts payable	(178 )	110
Other current liabilities	(501 )	964
Customer advances	(259 )	(67 )
Other liabilities	(230 )	(221 )
Due to related medical practices	(2 )	1
Income tax payable	—	(20 )
Net cash provided by operating activities	8,546	9,376
Cash Flows from Investing Activities:		
Purchases of property and equipment	(125 )	(375 )
Cost of patents	(108 )	(172 )
Net cash used in investing activities	(233 )	(547 )
Cash Flows from Financing Activities:		
Repayment of borrowings and capital lease obligations	(2,166 )	(3,401 )
Distributions to noncontrolling interests	(3,306 )	(3,724 )
Buyout of noncontrolling interests	(4,971 )	—
Repayment of notes receivable from employee stockholders	6	14
Net cash used in financing activities	(10,437)	(7,111 )

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Net (Decrease) Increase in Cash and Cash Equivalents	(2,124 )	1,718
Cash and Cash Equivalents – Beginning of Period	9,952	7,871
Cash and Cash Equivalents - End of Period	\$7,828	\$9,589

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

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FONAR CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2015 and 2014

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

(UNAUDITED)

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended March 31, 2015, are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2015. 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 29, 2014 for the fiscal year ended June 30, 2014.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The unaudited 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.

Earnings Per Share

Basic earnings per share ("EPS") is computed based on weighted average number of shares common stock and stock equivalents outstanding, net of common stock. In accordance with ASC topic 260-10, "Participating Securities and the Two-Class method", the Company used the Two-Class method for calculating basic earnings per share and applied the if converted method in calculating diluted earnings per share for the three and nine months ended March 31, 2015 and

March 31, 2014.