FORM 10-K/A

Annual report pursuant to section 13 and 15(d) [amend]

Filing Date: **2001-08-03** | Period of Report: **2000-06-30**
SEC Accession No. 0000355019-01-500020

(HTML Version on secdatabase.com)

FILER

FONAR CORP

CIK:**355019**| IRS No.: **112464137** | State of Incorp.:**DE** | Fiscal Year End: **0630**
Type: **10-K/A** | Act: **34** | File No.: **000-10248** | Film No.: **1697755**
SIC: **8093** Specialty outpatient facilities, nec

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SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549

FORM 10-K/A

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [Fee Required] For the fiscal year ended June 30, 2000

OR

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

Commission File No. 0-10248

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

DELAWARE	11-2464137
(State of incorporation)	(IRS Employer Identification Number)
110 Marcus Drive, Melville, New York	11747
(Address of principal executive offices)	(Zip Code)

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

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

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

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 _______

As of September 6, 2000, 56,678,153 shares of Common Stock, 4,211 shares of Class B Common Stock, 9,562,824 shares of Class C Common Stock and 7,836,287 shares of Class A Non-voting Preferred Stock of the registrant were outstanding. The aggregate market value of the approximately 54,125,684 shares of Common Stock held by non-affiliates as of such date (based on the closing price per share on September 6, 2000 as reported on the NASDAQ System) was approximately $125.2 million. The other outstanding classes do not have a readily determinable market value.

DOCUMENTS INCORPORATED BY REFERENCE
None

REASONS FOR ADMENDMENT

The reason for this amendment was to respond to a comment letter issued by the Securities and Exchange Commission in March 2001. Most of the changes are in the following Items:

Item 1, Business.

Item 7, Management's Discussion and Analysis of Financial Condition.

Except for revisions in Note 2 and Note 3 to the Financial Statements, the Financial Statements were not changed.

In addition, there were some changes made to Fonar's Form 10-Q's for the fiscal quarters ended September 30, 2000, December 30, 2000 and March 31, 2001 in the Management's Discussion and Analysis of Financial Condition sections. No changes were made to the Financial Statements.

ITEM 1. BUSINESS

GENERAL

FONAR Corporation (the "Company" or "FONAR") is a Delaware corporation which was incorporated on July 17, 1978. The Company's address is 110 Marcus Drive, Melville, New York 11747 and its telephone number is (631) 694-2929. FONAR also maintains a WEB site at www.fonar.com.

FONAR is engaged in the business of designing, manufacturing, selling and servicing magnetic resonance imaging ("MRI" or "MR") scanners which utilize MRI technology for the detection and diagnosis of human disease. FONAR introduced the first MRI scanner in 1980 and is the originator of the iron-core non-superconductive and permanent magnet technology.

FONAR's iron frame technology made FONAR the originator of "open" MRI scanners. FONAR introduced the first "open" MRI in 1980 and maintained its "open" design ever since.

Health Management Corporation of America (formerly U.S. Health Management Corporation and hereinafter sometimes referred to as "HMCA") was formed by the Company in March 1997 as a wholly-owned subsidiary in order to enable the Company to expand into the business of providing comprehensive management services to medical providers. In connection with its entry into this new line of business, HMCA has completed five acquisitions. HMCA provides management services, administrative services, office space, equipment, repair and maintenance service and clerical and other non-medical personnel to physicians and other medical providers, including diagnostic imaging centers.

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

FORWARD LOOKING STATEMENTS.

Certain statements made in this Annual Report on Form 10-K are "forward-looking statements" (within the meaning of the Private Securities Litigation Reform Act of 1995) regarding the plans and objectives of Management for future operations. Such statements involve known and unknown risks, uncertainties and other factors that may cause 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.

RECENT DEVELOPMENTS AND OVERVIEW.

The Company's products and works-in-progress (dubbed the "Fonar Seven") are intended to significantly improve the Company's competitive position. The Company's products are the Fonar 360(TM), the "QUAD(TM)" series of MRI scanners and the Echo(TM) MRI scanner.

The Fonar 360, approved for marketing by the FDA on March 16, 2000, includes the "Open Sky(TM)" MRI. The magnet frame is incorporated into the floor, ceiling and sidewalls of the scan room and is open. Consequently, physicians and family members can walk inside the magnet to approach the patient. The Open Sky version of the Fonar 360 is decoratively designed so that it is incorporated into the panoramic landscape that decorates the walls of the scan room. The ability of the Fonar 360 to give physicians direct 360 access to patients and the availability of MRI compatible surgical instruments will also enable the Fonar 360, in its future "OR-360(TM)" version, to be used for image guided surgery.

The "QUAD(TM) 12000" MR scanner utilizes a electromagnet and is accessible from four sides. The QUAD 12000 is the first "open" MR scanner at high field. The greater field strength of the QUAD'S magnet, when enhanced by the electronics already utilized by the Company's scanners, produces images of a quality and clarity competitive with high field superconductive magnets. The QUAD 12000 scanner magnet is the highest field "open MRI" in the industry.

The Company also produces the "QUAD(TM) 7000," a MR scanner which is similar in design to the QUAD 12000 but utilizes a smaller 3,500 gauss electromagnet. The less expensive QUAD 7000 offers an economical solution to the rising cost of medicine.

In addition, the Company offers a low cost, low field strength open MRI scanner, the "Echo(TM)"

The Company's current "works in progress" include its "Stand-Up MRI", also called "Indomitable(TM)", a scanner which will allow patients to be scanned while in weight-bearing positions, and the "Pinnacle(TM)" which combines many of the features of the QUAD scanners with a superconducting magnet. (See "Works in Progress".)

Indomitable(TM) will permit, for the first time, MRI diagnoses to be made in the weight-bearing state. It is also anticipated that Indomitable(TM) will enable MRI-guided surgical and interventional procedures to be performed when the patient is upright. The Company submitted the Indomitable(TM) to the FDA for approval in August, 2000.

Fonar is in the process of increasing its sales force and is seeking experienced medical equipment salesmen and distributors worldwide. Subsequent to June 30, 2000, Fonar increased its internal sales force to twelve persons and is planning to expand to approximately twenty sales persons. Fonar also intends to expand its website to a full-scale interactive sales desk for reaching new customers and assisting existing customers.

In March 1997, FONAR formed Health Management Corporation of America (formerly U.S. Health Management Corporation and hereinafter sometimes referred to as "HMCA") as a wholly-owned subsidiary for the purpose of engaging in the business of providing comprehensive management and administrative services, office space, equipment, repair and maintenance service for equipment and clerical and other personnel (other than physicians) to physicians' practices and other medical providers, including diagnostic centers.

HMCA entered the physician and diagnostic management services business through the consummation of two acquisitions, effective June 30, 1997. As a result of these two acquisitions, three additional acquisitions and the opening of new facilities, HMCA currently is managing 22 diagnostic imaging centers and 12 primary care and specialty medical practices located principally in New York State and Florida.

PRODUCTS

The Company's principal products are the Fonar 360, the QUAD series of MRI scanners and the Echo.

The Fonar 360 has an enlarged room sized magnet in which the magnet frame is incorporated into the floor, ceiling and walls of the scan room. This is made possible by Fonar's patented Iron-Frame(TM) technology which allows the Company's engineers to control, contour and direct the magnet's lines of flux in the patient gap where wanted and almost none outside of the steel of the magnet where not wanted. Physicians and family members are able to actually enter the scanner and approach the patient. In its Open Sky version, the Fonar 360 serves as an open patient friendly scanner which allows 360 access to the patient on the scanner bed. The walls can be decorated with panoramic murals and the entire scan room can be decorated to be incorporated into the pictured landscape.

In its future interventional OR-360 version, the enlarged room sized magnet and 360 access to the patient afforded by the Fonar 360 permit full-fledged surgical teams to walk into the magnet and perform surgery on the patient inside the magnet. Most importantly the exceptional quality of the MRI image and its exceptional capacity to exhibit tissue detail on the image, by virtue of the nuclear resonance signal's extraordinary capacity to create image contrast, can then be obtained real time during surgery to guide the surgeon in the surgery. Thus surgical instruments, needles, catheters, endoscopes and the like can be introduced directly into the human body and guided to the malignant lesion by means of the MRI image. The number of inoperable lesions should be greatly reduced by the availability of this new capability. Most importantly treatment can be carried directly to the target tissue.

A Neurosurgeon, for example, has direct access to the patient's head while the patient is lying in the scanner and can perform image guided neurosurgery in this magnet. The unimpeded access in the space above the patient is also useful for surgical access, positioning of life support devises, neuro-surgical microscopes and anaesthetic gases. It should be noted that these procedures have not yet been performed in the scanner, although they are promising possibilities.

With current treatment methods, therapy must always be restricted in the doses that can be applied to the malignant tissue because of the adverse effects on the healthy tissues. Thus chemotherapies must be limited at the first sign of toxic side effects. The same is the case with radiation therapy. The Company expects that with the OR 360 treatment agents may be administrated directly to the malignant tissue through small catheters or needles allowing much larger doses of chemotherapy, x-rays, laser ablation, microwave, or rf to be applied directly and exclusively to the malignant tissue with more effective results. Since the procedure of introducing a treatment needle or catheter under image guidance will be minimally invasive the procedure can be readily repeated should metastases occur elsewhere, with minimum impact on the patient beyond a straightforward needle injection.

The presence of the MRI image during treatment will enable the operator to make assessments during treatment if his treatment is being effective.

To increase the number of patients who can be scanned, patients are rolled into the scanner room on a special high-throughput gurney. Once the bed is anchored in position, it allows for full horizontal, vertical and rotational positioning for scanning any region of the body. To optimize the patient-friendly character of the Open Sky 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 QUAD 12000, is 0.6 Tesla. The Open Sky MRI shares the fundamental technology of the QUAD 12000 and offers the same speed, precision and image quality.

The QUAD(TM) 12000 MR scanner utilizes a 6000 gauss iron core electromagnet and is accessible from four sides. The QUAD 12000 is the first "open" MR scanner at high field. The QUAD(TM) 7000 is similar in design to the QUAD 12000 but utilizes a smaller 3,500 gauss electromagnet.

In addition to the patient comfort, increased throughput and new applications (such as MRI directed surgery and MRI mammography) made possible by the QUAD scanners' open design, the QUAD scanners are designed to maximize image quality through an optimal combination of signal-to-noise (S/N) and contrast-to-noise (C/N) ratios. The technical improvements realized in the QUAD's design over its predecessors also include increased image-processing speed and diagnostic flexibility.

MRI directed surgery (laproscopic surgical procedures) is possible by the QUAD's ability to supply images to a monitor positioned next to the patient, enabling a surgeon to view in process surgical procedure from an unlimited number of vantage points. The marked openness of FONAR's QUAD scanners enables surgeons to perform a wide range of surgical procedures inside the magnet.

The "QUAD" scanners are unique MR scanners in that four sides are open, thus allowing access to the scanning area from four vantage points. The starshaped open design of the QUAD will also make possible a host of new applications, particularly MRI mammography and MRI directed surgery (Interventional MRI).

With the QUAD's multi-bed patient handling system, many more short scan procedures such as those used in breast imaging can be done in a day, allowing the price of MRI mammography to drop without reducing the scanner's revenue-generating capacity. At the same time, there is not the painful compression of the breast characteristic of X-ray mammography.

The principal difference between the QUAD scanners and other open MRI scanners is in field strength. Other open MRIs operate at significantly lower magnetic field strengths and, therefore, are unable to produce the amount of MRI image-producing signal necessary to make high-quality MRI images (measured by signal-to-noise ratios, S/N).

The QUAD 12000 scanner utilizes a 6000 gauss (.6 Tesla field strength) iron core electromagnet. The greater field strength of the 6000 gauss magnet, when enhanced by the electronics already utilized by the Company's scanners, produces images of a higher quality and clarity than other open MRI scanners. The QUAD 12000 scanner magnet is the highest field "open MRI" in the industry and operates at a field strength that is almost two times its closest competitor (.6 Tesla field strength versus .35 Tesla field strength).

The QUAD scanners are designed to maximize image quality through an optimal combination of signal-to-noise (S/N) and contrast-to-noise (C/N) ratios. The technical improvements realized in the QUAD's design over its predecessors also include increased image-processing speed and diagnostic flexibility.

Maximal S/N is achieved when the direction of the magnetic field and the direction of the receiving coil axis are perpendicular to one another, as is the case with the QUAD scanners. The orientation of the magnetic field is vertical and when combined with any one of FONAR's array of solenoidal (wrap-around) surface coils, the QUAD 12000, for example, produces as much S/N as a supercon MRI at twice the field strength. So that prospective buyers can make an accurate comparison, the number 12,000 is used to describe the S/N equivalency of the QUAD 12000 to 12,000-gauss superconductive machines.

Several technological advances have been engineered into the QUAD scanners for extra improvements in S/N, including: new high-S/N Organ Specific(TM) receiver coils\; new ceramic magnet poles that provide advanced eddy-current control\; new advanced front-end electronics featuring high-speed, wide-dynamic-range analog-to-digital conversion and a miniaturized ultra-low-noise pre-amplifier\; high-speed automatic tuning, bandwidth-optimized pulse sequences, multi-bandwidth sequences, and off-center FOV imaging capability.

In addition to the signal-to-noise ratio, however, the factor that must be considered when it comes to image quality is contrast, the quality that enables reading physicians to clearly distinguish adjacent, and sometimes minute, anatomical structures. This quality is measured by contrast-to-noise ratios (C/N). Unlike S/N, which increases with increasing field strength, relaxometry studies have shown that C/N peaks in the mid-field range and actually falls off precipitously at higher field strengths. The QUAD 7000 and QUAD 12000 scanners operate squarely in the optimum C/N range. In addition, the Company's works-in-progress, the OR 360, Open Sky MRI and Stand-Up MRI are also designed to operate with said C/N range.

The QUAD provides various features allowing for versatile diagnostic capability. For example, SMART(TM) scanning allows for same-scan customization of up to 63 slices, each slice with its own thickness, resolution, angle and position. This is an extremely important feature for scanning parts of the body that include small-structure sub-regions requiring finer slice parameters. There's also Evolving Images(TM), Multi-Angle Oblique (MAO)(TM) imaging, and oblique imaging.

The QUAD console includes a mouse-driven, multi-window interface for easy operation and a 19-inch, 1280 x 1280-pixel, 20-up, high-resolution image monitor with features such as electronic magnifying glass and real-time, continuous zoom and pan.

Prior to the introduction of the QUAD scanners, the Ultimate(TM) 7000 scanner, introduced in 1990, was the Company's principal product. The Ultimate scanner replaced the Company's traditional principal products, the Beta(TM) 3000 scanner (which utilized a permanent magnet) and the Beta(TM) 3000M scanner (which utilized an iron core electromagnet). All of the Company's current and earlier model scanners create cross-sectional images of the human body.

During fiscal 2000, sales of the Company's QUAD scanners accounted for approximately 8.6% of the Company's total revenues and 66.5% of its medical equipment segment revenues, as compared to 7% of total revenues and 40% of medical equipment revenues during fiscal 1999. There were no sales of Ultimate or Beta scanners in fiscal 2000 and only one sale of a Beta scanner (1% of total revenues and 6.6% of medical equipment segment revenues) in fiscal 1999.

The Company also offers a low cost open scanner, the Echo, which operates at a .3 Tesla field strength. The Echo is an open upgraded version of the Company's former principal product, the Beta MRI scanner, but open on four sides to provide four directions for patient access instead of two.

The materials and components used in the manufacture of the Company's products (circuit boards, computer hardware components, electrical components, steel and plastic) are generally available at competitive prices. The Company has not had difficulty acquiring such materials.

WORKS IN PROGRESS

The Company's current "works in progress" center around the development of the Indomitable(TM) and Pinnacle scanners. All of the Company's products and works-in-progress seek to bring to the public MRI products that are expected to provide important advances against serious disease.

MRI takes advantage of the nuclear resonance signal elicited from the body's tissues and the exceptional sensitivity of this signal for detecting disease. Much of the serious disease of the body occurs in soft tissue. The principal diagnostic modality currently in use for detecting disease, as in the case of x-ray mammography, are diagnostic x-rays. X-rays discriminate soft tissues like healthy breast tissue and cancerous tissue poorly because the x-ray particle traverses the tissues almost equally thereby rendering the target film equally exposed by the two tissues and creating healthy and cancerous shadows on the film that differ very little in brightness. The image contrast between cancerous and healthy tissue is poor, making the detection of breast cancers by the x-ray mammogram less than optimal. If microscopic stones (microcalcifications) are not present to provide the missing contrast the breast cancer goes undetected. They frequently are not present. The maximum contrast available by x-ray with which to discriminate disease is 4%. Brain cancers differ from surrounding healthy brain by only 1.6%.

On the other hand the soft tissue contrasts with which to distinguish cancers on images by MRI are up to 180%. This is because the nuclear resonance signals from the body's tissues differ so dramatically. Liver cancer and healthy liver signals differ by 180%. Thus there is some urgency to bring to market an MRI based breast scanner that can overcome the x-ray limitation and assure that mammograms do not miss serious lesions. The added benefit of MRI mammography relative to x-ray mammography is the elimination of the need for the patient to disrobe and the painful compression of the breast typical of the x-ray mammogram. The patient is scanned in her street clothes in MRI mammography. Moreover MRI mammogram scans the entire chest wall including the axilla for the presence of nodes which the x-ray mammogram cannot reach.

Among its other uses, the Company envisions that its Open Sky MRI(TM) scanner will meet the public need for an MRI breast scanner.

In addition there is a need for a treatment modality that can deal effectively with the diseased tissue once it has been detected.

The Company's Indomitable(TM) scanner will allow patients to be scanned while standing or reclining. As a result, for the first time, MRI will be able to be used to show abnormalities and injuries under full weight-bearing conditions, particularly the spine and joints.

A floor-recessed elevator brings the patient to the height appropriate for the targeted image region. A custom-built adjustable bed will allow patients to sit or lie on their backs, sides or stomachs at any angle.

Full-range-of-motion studies of the joints in virtually any direction will be possible, an especially promising feature for sports injuries. Full range of motion cines, or movies, of the lumbar spine will be achieved under full body weight.

Indomitable(TM) will also be useful for MR-directed surgical procedures as the surgeon would have unhindered access to the patient with no restrictions in the vertical direction.

This easy-entry, mid-field-strength scanner should be ideal for trauma centers where a quick MRI-screening within the first critical hour of treatment will greatly improve patients' chances for survival and optimize the extent of recovery.

The Company is seeking approval from the FDA for Indomitable and submitted an application on August 9, 2000.

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

The Pinnacle will have a field strength between 0.6 to 1.0 Tesla and a 18-inch gap vertical field. This MRI scanner will combine the benefits of its open non claustrophobic patented iron-frame, vertical field magnet design with the high field strength of a superconducting magnet.

PRODUCT MARKETING

The principal markets for the Company's scanners are hospitals and private scanning centers.

Following a two and a half year period of intense research and development activity to develop and consolidate the features of its MRI scanners, the Company is now turning its attention from predominantly research and development to predominantly sales.

The Company intends to increase its sales force and is seeking experienced medical equipment sales personnel and distributors. The Company will conduct domestic sales through its own sales personnel and independent sales representatives and distributors. In foreign markets, the Company plans to expand its existing network of independent distributors.

In addition, the Company plans to expand its website to include an interactive "sales desk" for reaching customers and to commence a program for providing demonstrations of its products to potential customers on an international basis.

The Company has exhibited its new products at the annual trade show held by the Radiological Society of North America ("RSNA") in Chicago since November 1995 and plans to attend the RSNA trade show in November 2000 and future years. The RSNA trade show is held annually and is attended by most manufacturers of MRI scanners.

The Company is directing its marketing efforts to meet the demand for both "open" and high field strength MRI scanners. Utilizing a 6000 gauss (0.6 Tesla field strength) iron core electromagnet, the QUAD 12000 scanner magnet is the highest field "open MRI" in the industry.

The Company also plans to direct its marketing efforts to meeting the increasing demand for low price MRI. To date, the increased pressure for lower scanning prices has come largely from preferred provider organizations, health maintenance organizations and other private sector group plans and stricter insurance requirements, but government mandated health care reform is also under consideration.

To meet this demand, the Company has set competitive prices for the QUAD 12000 and QUAD 7000 scanners. In addition to reducing the health care provider's equipment cost, the QUAD scanners' improved image processing speed and extra-bed(s) option (allowing patients to be prepped while another patent is being scanned) would enable the provider to increase patient volume and further reduce per scan costs.

The reduced per scan costs will enable the Company to promote the QUAD 7000 in particular for short scan procedures such as MRI mammograms. MRI mammograms have the advantage over traditional x-rays of involving no radiation, and an MRI breast scan can be taken in most cases through ordinary street clothes without any painful compression.

The Company also will seek to introduce new MRI applications for the QUAD scanners such as MRI-directed surgery and head-to-toe MRI preventive screening.

The Company will also focus its marketing efforts on Indomitable (TM) which when commercially available will be the first MRI scanner to enable images and diagnoses to be made of a patient in the weight-bearing state.

Fonar's areas of operations are principally in the United States. During the fiscal year ended June 30, 2000, only 2.8% of the Company's revenues were generated by foreign sales, as compared to 3.4% and 4.6% for fiscal 1999 and 1998 respectively. See Note 20 to the Financial Statements.

The Company is seeking to promote foreign sales and has sold scanners in various foreign countries. The Company believes there are and will be significant market opportunities abroad, particularly in Asia and Eastern Europe. Foreign sales, however, have not yet proved to be a significant source of revenue.

SERVICE AND UPGRADES FOR MRI SCANNERS

The Company's customer base of installed scanners has been and will continue to be an additional source of income, independent of direct sales.

Income is generated from the installed base in two principal areas namely, service and upgrades. Service and maintenance revenues from the Company's installed base were approximately $3.7 million in fiscal 1998, $3.1 million in fiscal 1999 and $2.8 million is fiscal 2000. The decreases in fiscal 1999 and 2000 were principally the result of the retirement of old scanners.

The Company anticipates that its new line of scanners will result in significant upgrades income in future fiscal years. The potential for upgrades income originates in the exceptional versatility and productivity of the MRI technology. New medical uses for the technology are constantly being discovered. Dramatic new features can often be added to the scanner by the implementation of little more than versatile new software packages. For example, new software packages make possible the reformatting of scanner slices so that a stack of slices across the large bowel allow one to reconstruct the lumen of the bowel and through the use of software navigators visually carry out a "fly-thru" through the bowel searching for polyps and tumors. The procedure eliminates the unpleasant intubation of the bowel for routine colonoscopy. The procedure is presently operative using a CT scanner and plans are underway to adopt it for MRI. Software can be added to current MRI angiograms to synchronize the angiograms to the cardiac cycle. By doing so the dynamics of blood vessel filling and emptying can be visualized with cine movies. Such enhancements are attractive to the end users because they extend the useful life of the equipment and enable the user to avoid obsolescence and the expense of having to purchase new equipment.

Service and upgrade revenues are expected to increase as sales of QUAD scanners and the size of the customer base increases.

RESEARCH AND DEVELOPMENT

During the fiscal year ended June 30, 2000, the Company incurred expenditures of $5,893,648 ($361,323 of which was capitalized) on research and development, as compared to $6,647,555 (none of which was capitalized) and $6,506,995 (none of which was capitalized) incurred during the fiscal years ended June 30, 1999 and June 30, 1998, respectively.

Research and development activities have focused, in large part, on the development of the new Fonar 360 and Indomitable (TM) MRI scanners and the continued development and enhancement of the Company's QUAD MR scanners. The Fonar 360(OR 360 and Open Sky MRI), Indomitable (TM) MRI and QUAD scanners involve significant software and hardware development as the new products represented entirely new hardware design and architecture requiring a complete new operating software system. The Company's research activity includes developing a multitude of new features for the QUAD series scanners made possible by the QUAD's high speed processing power.

BACKLOG

The Company's backlog of unfilled orders at September 1, 2000 was approximately $2.05 million, as compared to $1.4 million at September 1, 1999. Of these amounts, approximately $0.45 million and $0.35 million had been paid to the Company as customer advances as at September 1, 2000 and September 1, 1999, respectively. Of the backlog amounts at September 1, 1999 and September 1, 2000, none represented orders from affiliates. It is expected that the existing backlog of orders will be filled within the current fiscal year. The Company's contracts generally provide that if a customer cancels an order, the customer's initial down payment for the MRI scanner is nonrefundable.

PATENTS AND LICENSES

There are currently numerous patents in effect which relate to the technology and components of the MRI scanners, some of which are registered in the name of the Company and others which are registered in the name of Dr. Raymond V. Damadian, the President and principal stockholder of the Company. The Company believes that these patents, and the know-how it developed, are material to its business.

Dr. Damadian has granted an exclusive world-wide license to the Company to make, use and sell apparatus covered by certain domestic and foreign patents relating to his MRI technology. The license continues until the expiration of the last patent included within the licensed patent rights, but is terminable earlier, at the option of Dr. Damadian, if he is removed from his position as Chairman of the Board or President of the Company without his consent, or if any stockholder or group of stockholders acting in concert becomes the beneficial owner of Company securities having voting power equal to or greater than the voting power of the securities held directly by him, his executors, administrators, successors or heirs. The agreement can also be terminated by Dr. Damadian upon the commission of an act of bankruptcy by the Company. If Dr. Damadian is unable to serve the Company by reason of his death or disability, the license agreement will remain in effect. Only one patent, which will expire in October, 2000, remains subject to this license. No royalties have been paid to Dr. Damadian under this license. Presently, no revenues are generated from the patent licensed to Fonar by Dr. Damadian.

One of the patents, issued in the name of Dr. Damadian and covered by said license, is United States patent No. 3,789,832, Apparatus and Method for Detecting Cancer in Tissue (the "1974 Patent"). The development of the Beta 3000 was based upon the 1974 Patent, and Management believes that the 1974 Patent was the first of its kind to utilize MR to scan the human body and to detect cancer. The 1974 Patent was extended beyond its original 17-year term and expired in February, 1992. None of the recoveries with respect to the enforcement of this patent were received by Dr. Damadian.

The Company has significantly enhanced its patent position within the industry and now possesses a substantial patent portfolio which provides the Company, under the aegis of United States patent law, "the exclusive right to make, use and sell" many of the scanner features which FONAR pioneered and which are now incorporated in most MRI scanners sold by the industry. The Company has 47 patents issued and 32 patents pending. A substantial number of FONAR's existing patents specifically relate to protecting FONAR's position in the high field iron frame open MRI market. The patents further enhance Dr. Damadian's pioneer patent (the 1974 Patent), that initiated the MRI industry and provided the original invention of MRI scanning. The 47 issued patents expire at times between June 23, 2004 and November 25, 2018.

The Company has entered into a cross-licensing agreement (utilizing other than FONAR's MRI technology) with another entity to use prior art developed for nuclear magnetic resonance technology and has entered into a license to utilize the MRI technology covered by the existing patent portfolio of a patent holding company. The Company also has patent cross-licensing agreements with other MRI manufacturers.

PRODUCT COMPETITION

MRI SCANNERS

A majority of the MRI scanners in use in hospitals and outpatient facilities and at mobile sites in the United States are based on high field air core magnet technology while the balance are based on open iron frame magnet technology. In 1998 the size of the MRI market in the United States was approximately $957 million. The market share of high field air core MRI's was approximately 57%. In 1999 the size of the MRI market in the United States was approximately 1.074 billion. FONAR's open iron frame MRI scanners are competing principally with high field air core scanners. The QUAD 12000 scanner, however, utilizing a 6,000 gauss (0.6 Tesla field strength) iron core electromagnet, is the first "open" MR scanner at high field strength. In addition FONAR's works-in-progress include a superconductive version of its open iron frame magnets.

FONAR believes that its MRI scanners have significant advantages as compared to the high field air core scanners of its competitors. These advantages include:

1. There is no expansive fringe magnetic field. High field air core scanners require a more expensive shielded room than is required for the iron frame scanners. The shielded room required for the iron frame scanners is intended to prevent interference from external radio frequencies.

2. They are more open, quiet and in the case of the QUAD scanners allow for faster throughput of patients.

3. Their annual operating costs are lower.

4. They can scan the trauma victim, the cardiac arrest patient, the respirator-supported patient, and premature and newborn babies. This is not possible with high field air core scanners because their magnetic field interferes with conventional life-support equipment.

The principal competitive disadvantage of the Company's products is that they are not "high field strength" (1.0 Tesla +) magnets. As a general principle, the higher the field strength can produce a faster scan. In some parts of the body a faster scan can be traded for a clearer picture. Although the Company believes that the lower cost of its systems plus the benefits of "openness" provided by its scanners compensate for the lower field strength, certain customers will still prefer the higher field strength.

FONAR faces competition within the MRI industry from such firms as General Electric Company\; Picker International, which is a Division of General Electric Company PLC, of England;\ Philips N.V.\; Toshiba Corporation, Hitachi Corporation and Siemens A.G. Most competitors have marketing and financial resources more substantial than those available to the Company and have in the past, and may in the future, heavily discount the sales price of their scanners. Such competitors sell both high field air core and iron frame products. FONAR's current market share of the market for MRI scanners is less than 0.5%. FONAR introduced the first "Open MRI" in 1982. "Open MRI" was made possible by FONAR's introduction of an MRI magnet built on an iron frame. Thus the magnetic flux generating apparatus of the magnet (magnet coils or permanent magnet bricks) was built into a frame of steel. The steel frame provided a return path for the magnetic lines of force and thereby kept the magnetic lines of force contained within the magnet. This enabled FONAR, from 1982 on, to show that the FONAR magnet was the only magnet that allowed the patients to stretch out their arms, the only "open" MRI.

The iron frame, because it could control the magnetic lines of force and place them where wanted and remove them from where not wanted (such as in the operating room where surgeons are standing), provided a much more versatile magnet design than was possible with air core magnets. Air core magnets contain no iron but consist entirely of turns of current carrying wire. FONAR's patented work-in-progress superconductive iron frame magnet, however, combines the high field capability of the air core superconductive magnets with the control and versatility of the open iron frame magnets, thereby joining the best features of both designs into a single magnet. Thus the air core superconductive magnets made by Fonar's large competitors that have dominated the MRI market since 1983 remain the confining "tunnel" design that the public has generally resented.

For an 11 year period, 1983-1994, Fonar's large competitors (with one exception) generally rejected Fonar's "open" design but by 1994 all (with one exception) added the iron frame "open" magnet to their MRI product line. In 1997 the sale of iron frame "open" magnets exceeded the sale of traditional air core superconductive magnets. One principal reason for this market shift, in addition to patient claustrophobia, is the awareness that the "open" magnet designs permit access to the patient to perform surgical procedures under MRI image guidance, a field which is now growing rapidly and is called "interventional MRI."

Fonar's future OR 360 version of the Fonar 360 explicitly addresses this growing market reception of MRI guided surgical procedures but is not yet available as a product. Fonar's Indomitable and QUAD series magnets do also. Although not enabling a full operating theater as the OR 360 does, the iron frame "Open" QUAD and Indomitable designs permit ready access to the patient from four sides and therefore enables a wide range of interventional surgical procedures such as biopsies and needle or catheter delivered therapies to be performed under MRI image guidance. The "tunnel" air core superconductive scanners do not permit access to the patient while the patient is inside the scanner.

While Fonar's current market share of the domestic MRI market is under 5%, FONAR expects to be a leader in domestic open market for several reasons. In MRI, scanning speed and image quality is controlled by the strength of the magnetic field. Fonar's QUAD 12000 scanner operates at almost twice the field strength of the next highest field strength open magnet, manufactured by Toshiba (0.6 Tesla vs. 0.35 Tesla). The Company's Fonar 360 and Indomitable scanners also operate at this field strength. High field MRI manufacturers convinced the marketplace for FONAR, and the marketplace accepts, that higher field strength translates directly into superior image quality and faster scanning speeds. This is the principal reason GE's 1.5 Tesla air core superconductive scanner achieved market dominance in the MRI market before the marketplace shifted and registered an increased demand for the iron frame "Open MRI." No companies possess the

Fonar 360 and FONAR possesses the pioneer patents on "Open MRI" technology.

OTHER IMAGING MODALITIES

FONAR's MRI scanners also compete with other diagnostic imaging systems, all of which are based upon the ability of energy waves to penetrate human tissue and to be detected by either photographic film or electronic devices for presentation of an image on a television monitor. Three different kinds of energy waves - X-ray, gamma and sound - are used in medical imaging techniques which compete with MRI medical scanning, the first two of which involve exposing the patient to potentially harmful radiation. These other imaging modalities compete with MRI products on the basis of specific applications.

X-rays are the most common energy source used in imaging the body and are employed in three imaging modalities:

1. Conventional X-ray systems, the oldest method of imaging, are typically used to image bones and teeth. The image resolution of adjacent structures that have high contrast, such as bone adjacent to soft tissue, is excellent, while the discrimination between soft tissue organs is poor because of the nearly equivalent penetration of x-rays.

2. Computerized Tomography ("CT") systems couple computers to x-ray instruments to produce cross-sectional images of particular large organs or areas of the body. The CT scanner addresses the need for images, not available by conventional radiography, that display anatomic relationships spatially. However, CT images are generally limited to the transverse plane and cannot readily be obtained in the two other planes (sagittal and coronal). Improved picture resolution is available at the expense of increased exposure to x-rays from multiple projections. Furthermore, the pictures obtained by this method are computer reconstructions of a series of projections and, once diseased tissue has been detected, CT scanning cannot be focused for more detailed pictorial analysis or obtain a chemical analysis.

3. Digital radiography systems add computer image processing capability to conventional x-ray systems. Digital radiography can be used in a number of diagnostic procedures which provide continuous imaging of a particular area with enhanced image quality and reduced patient exposure to radiation.

Nuclear medicine systems, which are based upon the detection of gamma radiation generated by radioactive pharmaceuticals introduced into the body, are used to provide information concerning soft tissue and internal body organs and particularly to examine organ function over time.

Ultrasound systems emit, detect and process high frequency sound waves reflected from organ boundaries and tissue interfaces to generate images of soft tissue and internal body organs. Although the images are substantially less detailed than those obtainable with x-ray methods, ultrasound is generally considered harmless and therefore has found particular use in imaging the pregnant uterus.

X-ray machines, ultrasound machines, digital radiography systems and nuclear medicine compete with the MRI scanners by offering significantly lower price and space requirements. However, FONAR believes that the quality of the images produced by its MRI scanners is generally superior to the quality of the images produced by those other methodologies.

GOVERNMENT REGULATION

FDA Regulation

The Food and Drug Administration in accordance with Title 21 of the Code of Federal Regulations regulates the manufacturing and marketing of FONAR's MRI scanners. The regulations can be classified as either pre-market or post-market. The pre-market requirements include obtaining marketing clearance, proper device labeling, establishment registration and device listing. Once the products are on the market, FONAR must comply with post-market surveillance controls. These requirements include the Quality Systems (QS) regulation, also known as Good Manufacturing Practices or GMPs, and Medical Device Reporting (MDR) regulations. The QS regulation is a quality assurance requirement that covers the design, packaging, labeling and manufacturing of a medical device. The MDR regulation is an adverse event-reporting program.

Classes of Products

Under the Medical Device Amendments of 1976 to the Federal Food, Drug and Cosmetic Act, all medical devices are classified by the FDA into one of three classes. A Class I device is subject only to certain controls, such as labeling requirements and manufacturing practices; a Class II device must comply with certain performance standards established by the FDA; and a Class III device must obtain pre-market approval from the FDA prior to commercial marketing.

FONAR's products are Class II devices. Class I devices are subject to the least regulatory control. They present minimal potential for harm to the user and are often simpler in design than Class II or Class III devices. Class I devices are subject to "General Controls" as are Class II and Class III devices. General Controls include:

1. Establishment registration of companies which are required to register under 21 CFR Part 807.20, such as manufacturers, distributors, re-packagers and re-labelers.

2. Medical device listing with FDA of devices to be marketed.

3. Manufacturing devices in accordance with the Good Manufacturing Practices (GMP) regulation in 21 CFR Part 820.

4. Labeling devices in accordance with labeling regulations in 21 CFR Part 801 or 809.

5. Submission of a Premarket Notification [510(k)] before marketing a device.

Class II devices are those for which general controls alone are insufficient to assure safety and effectiveness, and existing methods are available to provide such assurances. In addition to complying with general controls, Class II devices are also subject to special controls. Special controls may include special labeling requirements, guidance documents, mandatory performance standards and post-market surveillance.

The Company received approval to market its Beta 3000 and Beta 3000M scanners as Class III devices on September 26, 1984 and November 12, 1985. On July 28, 1988, the Magnetic Resonance Diagnostic Device which includes MR Imaging and MR Spectroscopy was reclassified by the FDA to Class II status. Consequently, Fonar's products are now classified as Class II products. On June 25, 1992, Fonar received FDA clearance to market the Ultimate Magnetic Resonance Imaging Scanner as a Class II device. Fonar received FDA clearance to market the QUAD 7000 in April 1995 and the QUAD 12000 in November 1995. On March 16, 2000, Fonar received FDA clearance to market the Fonar 360 for diagnostic imaging (the Open Sky version). On August 9, 2000, the Company applied for FDA clearance for the Stand-Up MRI. The Company anticipates that it will need FDA clearance for Pinnacle MRI scanners and may need clearance for the OR 360 version of the Fonar 360.

Premarketing Submission

Each person who wants to market Class I, II and some III devices intended for human use in the U.S. must submit a 510(k) to FDA at least 90 days before marketing unless the device is exempt from 510(k) requirements. A 510(k) is a pre-marketing submission made to FDA to demonstrate that the device to be marketed is as safe and effective, that is, substantially equivalent (SE), to a legally marketed device that is not subject to pre-market approval (PMA). Applicants must compare their 510(k) device to one or more similar devices currently on the U.S. market and make and support their substantial equivalency claims.

The FDA is committed to a 90-day clearance after submission of a 510(k), provided the 510(k) is complete and there is no need to submit additional information or data.

The 510(k) is essentially a brief statement and description of the product. As Fonar's scanner products are Class II products, there are no pre-market data requirements and the process is neither lengthy nor expensive.

An investigational device exemption (IDE) allows the investigational device to be used in a clinical study pending FDA clearance in order to collect safety and effectiveness data required to support the Premarket Approval (PMA) application or a Premarket Notification [510(k)] submission to the FDA. Clinical studies are most often conducted to support a PMA.

For the most part, however, Fonar has not found it necessary to utilize IDE's. The standard 90 day clearance for our new MRI scanner products classified as Class II products makes the IDE unnecessary, particularly in view of the time and effort involved in compiling the information necessary to support an IDE.

Quality System Regulation

The Quality Management System is applicable to the design, manufacture, administration of installation and servicing of magnetic resonance imaging scanner systems. The FDA has authority to conduct detailed inspections of manufacturing plants, to establish Good Manufacturing Practices which must be followed in the manufacture of medical devices, to require periodic reporting of product defects and to prohibit the exportation of medical devices that do not comply with the law.

Two of the required elements under the QS regulation are design controls and labeling. Each manufacturer is required by regulation to establish and maintain design control procedures and proper labeling.

Because the intrinsic quality level of devices and processes is established during the design phase, the quality system program includes this phase to assure overall quality, meet customer requirements, meet company quality claims, and comply with the intent of the Food Drug & Cosmetics Act.

By a formal process under a total quality system during the design phase, clear and concise printed and/or software labeling are written and reviewed; and the ink substrate and attachment methods for printed labeling are developed. Such labeling is designed to meet customer and regulatory requirements. Thereafter, the procurement, use of the correct label, and correct attachment of labels will be assured under the quality system element for these activities during manufacturing.

Medical Device Reporting Regulation

Manufacturers must report all MDR reportable events to the FDA. Each manufacturer must review and evaluate all complaints to determine whether the complaint represents an event which is required to be reported to FDA. Section 820.3(b) of the Quality Systems regulation defines a complaint as, "any written, electronic or oral communication that alleges deficiencies related to the identity, quality, durability, reliability, safety, effectiveness, or performance of a device after it is released for distribution."

A report is required when a manufacturer becomes aware of information that reasonably suggests that one of their marketed devices has or may have caused or contributed to a death, serious injury, or has malfunctioned and that the device or a similar device marketed by the manufacturer would be likely to cause or contribute to a death or serious injury if the malfunction were to recur.

Malfunctions are not reportable if they are not likely to result in a death, serious injury or other significant adverse event experience.

A malfunction which is or can be corrected during routine service or device maintenance still must be reported if the recurrence of the malfunction is likely to cause or contribute to a death or serious injury if it were to recur.

Fonar has established and maintains written procedures for implementation of the MDR regulation. These procedures include internal systems that:

provide for timely and effective identification, communication and evaluation of adverse events;

provide a standardized review process and procedures for determining whether or not an event is reportable; and

provide procedures to insure the timely transmission of complete reports.

These procedures also include documentation and record keeping requirements for:

information that was evaluated to determine if an event was reportable;

all medical device reports and information submitted to the FDA;

any information that was evaluated during preparation of annual certification report(s); and

systems that ensure access to information that facilitates timely follow up and inspection by FDA.

FDA Enforcement

FDA may take the following actions to enforce the MDR regulation:

FDA-Initiated or Voluntary Recalls

Recalls are regulatory actions that remove a hazardous, potentially hazardous, or a misbranded product from the marketplace. Recalls are also used to convey additional information to the user concerning the safe use of the product. Either FDA or the manufacturer can initiate recalls.

There are three classifications, i.e., I, II, or III, assigned by the Food and Drug Administration to a particular product recall to indicate the relative degree of health hazard presented by the product being recalled.

Class I

Is a situation in which there is a reasonable probability that the use of, or exposure to, a violative product will cause serious adverse health consequences or death.

Class II

Is a situation in which use of, or exposure to, a violative product may cause temporary or medically reversible adverse health consequences or where the probability of serious adverse health consequences is remote.

Class III

Is a situation in which use of, or exposure to, a violative product is not likely to cause adverse health consequences.

FONAR has initiated four Class II recalls. The recalls involved making minor corrections to the product in the field. Frequently, corrections which are made at the site of the device are called "field corrections" - as opposed to "recalls".

Civil Money Penalties

The FDA, after an appropriate hearing, may impose civil money penalties for violations of the FD&C Act that relate to medical devices. In determining the amount of a civil penalty, FDA will take into account the nature, circumstances, extent, and gravity of the violations, the violator's ability to pay, the effect on the violator's ability to continue to do business, and any history of prior violations. The civil money penalty may not exceed $15,000 for each violation and may not exceed $1,000,000 for all violations adjudicated in a single proceeding, per person.

Warning Letters

FDA issues written communications to a firm, indicating that the firm may incur more severe sanctions if the violations described in the letter are not corrected. Warning letters are issued to cause prompt correction of violations that pose a hazard to health or that involve economic deception. The FDA generally issues the letters before pursuing more severe sanctions.

Seizure

A seizure is a civil court action against a specific quantity of goods which enables the FDA to remove these goods from commercial channels. After seizure, no one may tamper with the goods except by permission of the court. The court usually gives the owner or claimant of the seized merchandise approximately 30 days to decide a course of action. If they take no action, the court will recommend disposal of the goods. If the owner decides to contest the government's charges, the court will schedule the case for trial. A third option allows the owner of the goods to request permission of the court to bring the goods into compliance with the law. The owner of the goods is required to provide a bond (security deposit) to assure that they will perform the orders of the court, and the owner must pay for FDA supervision of any activities by the company to bring the goods into compliance.

Citation

A citation is a formal warning to a firm of intent to prosecute the firm if violations of the FD&C Act are not corrected. It provides the firm an opportunity to convince FDA not to prosecute.

Injunction

An injunction is a civil action filed by FDA against an individual or company. Usually, FDA files an injunction to stop a company from continuing to manufacture, package or distribute products that are in violation of the law.

Prosecution

Prosecution is a criminal action filed by FDA against a company or individual charging violation of the law for past practices.

Foreign and Export Regulation

The Company obtains approvals as necessary in connection with the sales of its products in foreign countries. In some cases, FDA approval has been sufficient for foreign sales as well. The Company's standard practice has been to require either the distributor or the customer to obtain any such foreign approvals or licenses which may be required.

Legally marketed devices that comply with the requirements of the Food Drug & Cosmetic Act require a Certificate to Foreign Government issued by the FDA for export. Other devices that do not meet the requirements of the FD&C Act but comply with the laws of a foreign government require a Certificate of Exportability issued by the FDA. All products which Fonar sells have FDA clearance and would fall into the first category.

Foreign governments have differing requirements concerning the import of medical devices into their respective jurisdictions. The European Union (EU), made up of 15 individual countries, has some essential requirements described in the EU's Medical Device Directive (MDD). In order to export to one of these countries, FONAR must meet the essential requirements of the MDD and any additional requirements of the importing country. The essential requirements are similar to some of the requirements mandated by the FDA. In addition the MDD requires that FONAR enlist a "Notified Body" to examine and assess our documentation (Technical Construction File) and verify that the product has been manufactured in conformity with the documentation. The notified body must carry out or arrange for the inspections and tests necessary to verify that the product complies with the essential requirements of the MDD, including safety performance and Electromagnetic Compatibility (EMC). Also required is a Quality System (ISO-9001) assessment by the Notified Body. Fonar was approved for ISO 9001 certification for its Quality Management System in April, 1999.

Fonar received clearance to sell the Quad scanners in the EU in May, 1999 and is working on obtaining clearance for the Fonar 360 and Stand-Up scanners.

Other countries such as China and Russia require that their own testing laboratories perform an evaluation of our devices. This requires that we must bring the foreign agency's personnel to the USA to perform the evaluation at Fonar's expense before exporting.

Some countries, including many in Latin America and Africa, have very few regulatory requirements.

Because Fonar's export sales are not material at this point, foreign regulation does not have a material effect on Fonar. In any case, Fonar does not believe that foreign regulation will deter its efforts to penetrate foreign markets.

Reimbursement to Medical Providers for MRI Scans

Effective November 22, 1985, the Department of Health and Human Services authorized reimbursement of MRI scans under the Federal Medicare program. In addition, most private insurance companies have authorized reimbursement for MRI scans.

Anti-Kickback and Self-Referral Legislation

Proposed and enacted legislation at the State and Federal levels has restricted referrals by physicians to medical and diagnostic centers in which they or their family members have an interest. In addition, regulations have been adopted by the Secretary of Health and Human Services which provide limited "safe harbors" under the Medicare Anti-Kickback Statute. These safe harbors describe payments and transactions which are permitted between an entity receiving reimbursement under the Medicare program and those having an interest in or dealings with the entity. Although the Company cannot predict the overall effect of the adoption of these regulations on the medical equipment industry, the use and continuation of limited partnerships (where investors may be referring physicians) to own and operate MRI scanners could be greatly diminished.

HEALTH MANAGEMENT CORPORATION OF AMERICA
(PHYSICIAN AND DIAGNOSTIC MANAGEMENT SERVICES BUSINESS)

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

Since its formation, HMCA has completed five acquisitions. HMCA became actively engaged in the physician and diagnostic management services business through its initial two acquisitions which were consummated effective June 30, 1997. Following these two initial acquisitions, HMCA completed two additional acquisitions in fiscal 1998 and one additional acquisition in fiscal 1999.

The first acquisition was of a group of several interrelated corporations, limited liability companies and a partnership engaged in the business of managing three diagnostic imaging centers and one multi-specialty practice in New York State. The transaction was effected through a merger between a wholly-owned subsidiary of HMCA (formed for the purpose of effecting the transaction) and Affordable Diagnostics, Inc., one of the acquired companies which immediately prior to the merger had acquired the assets and assumed the liabilities of the other acquired companies (together, the "Affordable Companies"). The consideration paid for the Affordable Companies consisted of 2,340,000 shares of the common stock of Fonar.

The business of the Affordable Companies, which is being continued by HMCA, consisted of providing management, space, equipment, personnel and other resources to the four managed facilities. The services provided at the facilities include MRI scans, CAT scans, x-rays, physical rehabilitation, and in connection with physical rehabilitation, ultra-sound and SSEP/EMG electromygographic diagnostics. The four managed facilities are located in Brewster, New York (MRI), Yonkers, New York (MRI and x-ray), Bronx, New York (MRI and CT) and Riverdale, New York (multi-specialty practice, ultra-sound and SSEP/EMG electromygographic diagnostics). The assets acquired through the acquisition include three MRI scanners, one CT scanner, one x-ray machine, rehabilitation equipment and ultra-sound and electromygographic machines. The equipment is leased to and used at the managed facilities. In addition, HMCA consummated the acquisition of an additional MRI scanner pursuant to a contract entered into prior to the acquisition.

The second completed acquisition was of Raymond V. Damadian, M.D. MR Scanning Centers Management Company ("RVDC"). Pursuant to the terms of the transaction, HMCA purchased all of the issued and outstanding shares of stock of RVDC from Raymond V. Damadian in exchange for 10,000 shares of the Common Stock of FONAR. Raymond V. Damadian, the principal stockholder, President and Chairman of the Board of FONAR, was the sole stockholder, director and President of RVDC immediately prior to the acquisitions. The business of RVDC, which is being continued by HMCA, was the management of MRI diagnostic imaging centers in New York, Florida, Georgia and other locations. The assets of RVDC included nine MRI scanners, office equipment and office furnishings. RVDC also held partnership interests in three partnerships owning MRI scanning centers.

As a result of these transactions with Dr. Damadian, HMCA has acquired the business of managing 19 MRI scanning centers. Sixteen of the scanning centers are managed pursuant to management agreements, and 3 of the centers are partnerships with RVDC as the general partner. Effective July 1, 1997, HMCA entered into new management agreements with the centers. Pursuant to the management agreements, HMCA is providing comprehensive management services, including administrative services, office facilities, office equipment, supplies and personnel (except for physicians) to the centers. Service for the centers' MRI scanning equipment is provided under the management agreements in these cases. MRI scanning systems are provided to 9 of the centers pursuant to scanner leases entered into effective July 1, 1997. All of the facilities previously managed by RVDC are MRI scanning centers.

The third completed acquisition, consummated on January 20, 1998, was an acquisition of the business and assets of Central Health Care Services Management Company, LLC (Central Health). Central Health is a management service organization (MSO) managing a multi-specialty practice in Yonkers, New York. The assets acquired include therapy and rehabilitation equipment, x-ray equipment, office equipment and office furnishings. The purchase price of Central Health was $1,454,160, of which $601,665 was paid in cash, $551,665 by notes, $25,000 by assumptions of liabilities and the balance in shares of Fonar common stock valued at $275,830.

The fourth completed acquisition, consummated effective March 20, 1998, was the acquisition of A & A Services, Inc. ("A & A Services"), an MSO managing four primary care practices in Queens County, New York. A & A Services provides the practices with management services, office space, equipment, repair and maintenance service for the equipment and clerical and other non medical personnel. The office locations for the practices are located in Woodhaven, Richmond Hill, Corona and Ridgewood in Queens County, New York and account for over 40,000 primary care patient visits per year. The assets owned by A&A Services included medical and office equipment and office furnishings. The purchase price for A&A was $10 million, $4 million of which was paid in cash at closing and $6 million of which is payable pursuant to promissory notes over a total of six years from closing. The notes are secured by the assets of the acquired businesses as of the date of the acquisition. Additional consideration is payable if net income for the acquired business exceeds $2.3 in any of the five years following the closing as follows: in each year, 75% of net income between $2.3 million and $2.8 million; 50% of net income between $2.8 million and $3.5 million and 25% of net income in excess of $3.5 million. During the fiscal year ended June 30, 2000, the net operating income from the A&A acquisition was approximately $1.2 million and for the year ended June 30, 1999, approximately $1.6 million.

In connection with the acquisition, one of the companies managed by HMCA entered into fifteen year term employment agreements with the two former owners of A & A Services. The agreements provides for a base annual salary of $150,000 per annum for the first five years and of $315,000 per annum for sixth year. Thereafter the salaries increase 5% per year up to $500,000 per annum. Additionally, each agreement provides for a bonus commencing in the sixth year of the agreement, contingent upon meeting thresholds of net income.

The fifth completed acquisition, consummated effective August 20, 1998, was the acquisition of Dynamic Health Care Management, Inc. ("Dynamic"). Dynamic is an MSO which manages three physician practices in Nassau and Suffolk Counties on Long Island, New York. The office locations for these practices are in Bellmore and Hempstead in Nassau County and Deer Park in Suffolk County and account for approximately 85,000 patient visits per year. The assets of Dynamic included therapy and rehabilitation equipment, office equipment and office furnishings. The purchase price for Dynamic was $11,576,231, consisting of $2.0 million in cash and the balance payable pursuant to promissory notes over an aggregate period of five years from the closing. The notes are secured by the assets of the acquired business as of the date of the acquisition.

In connection with the acquisition of Dynamic, HMCA entered into ten year term employment agreements with the two former owners of Dynamic. Each agreement provides for base compensation of $150,000 in the first year with annual cost of living increases for the first five years and an increase of $100,000 commencing in the sixth year. In addition, the agreements provide for bonus compensation contingent upon the pretax earnings of Dynamic.

HMCA GROWTH STRATEGY

In addition to purchasing management companies, HMCA may also pursue acquisitions in which HMCA would purchase the assets of physicians' practices. Simultaneously with the acquisition of the assets, HMCA would enter into agreements with the physicians (or a professional corporation employing the physicians) pursuant to which HMCA would lease the use of the assets and provide management services to the physicians or their professional corporations. The professional corporation could be either affiliated with HMCA or owned by the selling physicians. This second alternative has not been utilized by HMCA to date.

HMCA believes that there are numerous existing medical practices that could benefit from improved management techniques which would allow the physicians to spend more time treating patients (thereby increasing their revenue) and less time being concerned with the day to day tasks of managing the business. Although the disadvantages to physicians would be the increased administrative costs in the form of management fees payable to HMCA, and the lack of direct accountability of the nonprofessional staff to the physicians, the Company believes the ability of the physicians to spend more time practicing medicine will more than compensate for these disadvantages.

In addition, expansion plans for HMCA's clients include opening more offices and expanding existing offices so as to enable practices to treat more patients more efficiently.

HMCA is seeking to create a network of physicians to participate in managed care and to promote an expansion of the medical services offered by its medical practice clients.

HMCA believes that the creation of this network will be particularly helpful to its clients where capitated fee agreements are negotiated with insurers since its clients will be able to offer more services from more locations and thereby obtain a higher capitation rate than they might otherwise have been able to obtain. Capitated fee arrangements are arrangements with HMO's whereby the physician or physician practice is paid a fixed monthly fee based on the age and gender of covered person. The fees vary from HMO to HMO and are essentially set by the HMO's.

HMCA's growth strategy is intended to enable its medical practice clients to retain and enhance revenues and to offer patients cost-effective medical care within an integrated practice offering a broad range of evaluation, testing, diagnostic, treatment and therapeutic services. In the longer term, as the network of offices to which it provides its management services grows, HMCA believes that it will be in an excellent position to attract managed care contracts for its clients from employers and insurance carriers.

During the fiscal year ended June 30, 2000, HMCA did not conclude any additional acquisitions primarily because it has not had the capital resources to acquire suitable businesses on favorable terms. HCMA was seeking to raise capital through a private placement and other financing alternatives, but during the current fiscal year these efforts proved unsuccessful. Consequently, HMCA was unable in negotiations to offer substantial cash payments at closing but had to seek longer payout terms. HMCA was unable to identify any businesses available for acquisition which it believed represented good value on such terms.

PHYSICIAN AND DIAGNOSTIC MANAGEMENT SERVICES

HMCA's services to the facilities and practices it manages encompass substantially all of the their business operations. The facilities and medical practices are controlled however, by the physician owners, not HMCA, and all medical services are performed by the physicians. HMCA is the management company and performs services of a non-professional nature. These services include:

(1) Offices and Equipment. HMCA provides office space and equipment to its clients. This includes technologically sophisticated medical equipment. HMCA also provides improvements to leaseholds, assistance in site selection and advice on improving, updating, expanding and adapting to new technology.

(2) Personnel. HMCA staffs all the non-medical positions of its clients with its own employees, eliminating the client's need to interview, train and manage non-medical employees, as well as process the necessary tax, insurance and other documentation relating to employees.

(3) Administrative. HMCA assists in the scheduling of patient appointments, purchasing of medical supplies and equipment and handling of reporting, accounting, processing and filing systems. It prepares and files the physician portions of complex forms to ensure full and timely regulatory compliance and appropriate cost reimbursement under no-fault insurance and workers' compensation guidelines.

(4) Billing and Collections. HMCA is responsible for the billing and collection of revenues from third-party payors including those governed by no-fault and workers' compensation statutes.

(5) Cost Saving Programs. Based on available volume discounts, HMCA seeks to obtain favorable pricing for medical supplies, equipment, pharmaceuticals and other inventory for its clients.

(6) Diagnostic Imaging and Ancillary Services. HMCA can offer access to diagnostic imaging equipment through diagnostic imaging facilities managed by it. The Company is expanding the ancillary services offered in its network to include CT-scans, x-rays, ultrasound, and other ancillary services useful to its clients.

(7) Marketing Strategies. HMCA is responsible for developing marketing plans for its clients.

(8) Expansion Plans. HMCA assists the clients in developing expansion plans. These plans are mutually developed. Additional physicians and physicians assistants have been added where needed.

HMCA advises clients on all aspects of their business, including expansion where it is a reasonable objective, on a continuous basis. HMCA's objective is to free physicians from as many non-medical duties as practicable. Practices can treat patients more efficiently if the physicians can spend less time on business and administrative matters and more time practicing medicine.

HMCA provides its services pursuant to negotiated contracts with its clients. While HMCA believes it can provide the greatest value to its clients by furnishing the full range of services appropriate to that client, HMCA would also be willing to enter into contracts providing for a more limited spectrum of management services.

In the case of contracts with the MRI facilities, fees are charged by HMCA based on the number of procedures performed. In the case of the physical rehabilitation and medical practices, flat fees are charged on a monthly basis. Fees are subject to adjustment on an annual basis, but must be based on mutual agreement. The per procedure charges to the MRI facilities range from $250 to $675 per MRI scan. The monthly fees charged to the medical and physical rehabilitation practices range from approximately $53,850 to $237,500. Only one medical practice, located in Florida where the corporate practice of medicine is permitted, is owned by HMCA. Only one chiropractic practice managed by HMCA, providing HMCA with management fees of approximately $154,000 in fiscal 2000, is owned by a seller in an acquisitions.

The practices and the facilities enter into contracts with managed care companies. With the exception of some capitated health plans in which the medical practices participate, neither HMCA's clients nor HMCA participate in any risk sharing arrangements capitated plans are those HMO programs where the provider is paid a flat monthly fee per patient. For the fiscal year ended June 30, 2000, fees to HMCA's clients from capitated plans amounted to approximately $1.0 million, an amount equal to 2.9% of HMCA's revenues. All of these were attributable to medical professional corporations managed by A & A Services, Inc., representing 25% of their revenues.

HMCA MARKETING

HMCA's marketing strategy is to increase the size, number and locations of medical practices and facilities which it manages. HMCA will also seek to broaden the types of medical practices which it services and to develop a client base of primary care and specialty practices as well as diagnostic imaging facilities and other ancillary services. HMCA will seek to promote growth of its clients' patient and revenue bases by developing a network of medical providers and assisting its clients in the development of multi-specialty medical practices.

Marketing activities include locating medical practices which meet the size, quality and operating parameters set by HMCA. HMCA will focus on opportunities for expanding the services clients offer and expanding into new geographic areas. HMCA will also seek to increase the patient volume of clients.

To date, HMCA has not been able to add a significant number of specialty practices to its client base. In part this difficulty stems from HMCA's lack of capital resources to fund acquisitions; this lack of capital resources similarly has prevented HMCA from broading its client base generally.

DIAGNOSTIC IMAGING CENTERS AND OTHER ANCILLIARY SERVICES

Diagnostic imaging centers managed by HMCA provide diagnostic imaging services to patients referred by physicians who are either in private practice or affiliated with managed care providers or other payor groups. The centers are operated in a manner which eliminates the admission and other administrative inconveniences of in-hospital diagnostic imaging services. Imaging services are performed in an outpatient setting by trained medical technologists under the direction of interpreting physicians. Following diagnostic procedures, the images are reviewed by the interpreting physicians who prepare a report of these tests and their findings. These reports are transcribed by HMCA personnel and then delivered to the referring physician.

In addition, HMCA is expanding the ancillary services offered in its network to include CT scans, virtual colonoscopies, x-rays, ultrasound and other modalities as may be appropriate for the physician practice mix.

HMCA develops marketing programs in an effort to establish and maintain profitable referring physician relationships and to maximize reimbursement yields. These marketing approaches identify and target selected market segments consisting of area physicians with certain desirable medical specialties and reimbursement yields. Corporate and center managers determine these market segments based upon an analysis of competition, imaging demand, medical specialty and payor mix of each referral from the local market. HMCA also directs marketing efforts at managed care providers.

Managed care providers are becoming an increasingly important factor in the diagnostic imaging industry. To further its position, HMCA will seek to expand the imaging modalities offered at its managed centers or to create networks with other imaging centers. The planned introduction of virtual colonoscopy at one of the managed centers is considered by HMCA to be one of the most promising new modalities. The device is used with a CT scanner and enables the physician to conduct a colonoscopy without using any invasive instruments. If it proves successful, HMCA will introduce it to other managed centers as appropriate.

COMPETITION (HMCA)

The physician and diagnostic management services field is highly competitive. A number of large hospitals have acquired medical practices and this trend may continue. HMCA expects that more competition will develop. Many competitors have greater financial and other resources than HMCA.

With respect to the diagnostic imaging centers managed by HMCA, the outpatient diagnostic imaging industry is highly competitive. Competition focuses primarily on attracting physician referrals at the local market level and increasing referrals through relationships with managed care organizations. HMCA believes that principal competitors for the diagnostic imaging centers are hospitals and independent or management company-owned imaging centers. Competitive factors include quality and timeliness of test results, ability to develop and maintain relationships with managed care organizations and referring physicians, type and quality of equipment, facility location, convenience of scheduling and availability of patient appointment times.

GOVERNMENT REGULATION APPLICABLE TO HMCA

FEDERAL REGULATION

Stark Law

Under the federal Self-Referral Law (the "Stark Law") (which is applicable to Medicare and Medicaid patients) and the self-referral laws of various States, certain health practitioners (including physicians, chiropractors and podiatrists) are prohibited from referring their patients for the provision of designated health services (including diagnostic imaging and physical therapy services) to any entity with which they or their immediate family members have a financial relationship, unless the referral fits within one of the specific exceptions in the statutes or regulations. Statutory exceptions under the Stark Law include, among others, direct physician services, in-office ancillary services rendered within a group practice, space and equipment rental and services rendered to enrollees of certain prepaid health plans. Some of these exceptions are also available under the State self-referral laws.

Anti-kickback Regulation

Under the federal Anti-kickback statute, which is applicable to Medicare and Medicaid, it is illegal, among other things, for a provider MRI services to pay or offer money or other consideration to induce the referral of MRI scans. Neither HMCA nor its clients engage in this practice.

Approximately 7.6% of the revenues of HMCA's clients are attributable to Medicare and 0.2% are attributable to Medicaid.

State Regulation

In addition to the federal self-referral law and federal Anti-kickback statute, many States, including those in which HMCA and its clients operate, have their own versions of self-referral and anti-kickback laws. These laws are not limited in their applicability, as are the federal laws, to specific programs. HMCA believes that it and its clients are in compliance with these laws.

Various States prohibit business corporations from practicing medicine. Various States also prohibit the sharing of professional fees or fee splitting. Consequently, HMCA leases space and equipment to clients and provides clients with a range of non-medical administrative and managerial services for agreed upon fees. HMCA does not engage in the practice of medicine or establish standards of medical practice or policies for its clients in any such State.

HMCA's clients generate revenue from patients covered by no-fault insurance and workers' compensation programs. For the fiscal year ended June 30, 2000, Approximately 49% of our clients' receipts were from patients covered by no-fault insurance and approximately 8% of our client's receipts were from patients covered by worker's compensation programs. In the event that changes in these laws alter the fee structures or methods of providing service, or impose additional or different requirements, HMCA could be required to modify its business practices and services in ways that could be more costly to HMCA or in ways that decrease the revenues which HMCA receives from its clients.

HMCA believes that it and its clients are in compliance with applicable Federal, State and local laws. HMCA does not believe that such laws will have any material effect on its business.

EMPLOYEES

As of July 1, 2000, the Company employed 568 persons on a full-time and part-time basis. Of such employees, 13 were engaged in marketing and sales, 43 in research and development, 72 in prodution, 44 in customer support services, 356 in administration (including 201 on site at facilities and offices managed by HMCA and 85 performing billing, collection and transcription services for those facilities) and 40 professional MRI technicians on site at diagnostic imaging centers managed by HMCA.

ITEM 2. PROPERTIES

Fonar leases approximately 135,240 square feet of office and plant space at its principal offices in Melville, New York and at two other locations in Melville and Farmingdale, New York at a current aggregate annual rental rate of approximately $834,000, excluding utilities, taxes and other related expenses. The term of one of the leases extends through 2002 with options to renew up through 2008 and the term of the other lease extends to the beginning of 2009. The Company also leases space in Harrisburg, Pennsylvania at a rental of $1350 per month. Management believes that these premises are adequate for its current needs. HMCA leases approximately 16,850 square feet for its headquarters in Melville, New York at a current annual rental rate of $369,865. The term of the lease extends through September, 2009. In addition, HMCA maintains leased office premises for its clients at approximately 38 site locations having an aggregate annual rental rate of approximately $1.9 million under leases having various terms.

ITEM 3. LEGAL PROCEEDINGS

In January 1998, the Company filed an action against Health South, Inc., in the United States District Court for the Eastern District of New York (Civil Action No. CV-98-0679) alleging infringement of the Company's Multi-Angle Oblique Imaging Patent (U.S. Patent No. 4,871,966). Health South, Inc. filed a declaratory judgment counterclaim for non-infringement and invalidity and a third party claim against a manufacturer of certain of the scanners. The case was settled with the manufacturer in December, 1999 and with Health South, Inc. in June, 2000.

There is no material litigation pending, or to its knowledge, threatened against the Company.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None.

Part II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's Common Stock is traded in the Nasdaq SmallCap market under the National Association of Securities Dealers Automated Quotation System ("NASDAQ") symbol FONR. The following table sets forth the high and low bid and asked prices reported in NASDAQ System for the periods shown. The prices represent quotations between dealers and do not include certain mark-ups, mark-downs or commissions, and do not necessarily represent actual transactions.

Fiscal Quarter		Bid		Ask	
		High	Low	High	Low
July - September	1997	3.87	2.72	3.94	2.75
October - December	1997	4.03	2.63	4.06	2.66
January - March	1998	3.03	2.38	3.13	2.41
April - June	1998	2.72	1.94	2.75	2.00
July - September	1998	2.47	1.25	2.50	1.31
October - December	1998	1.97	0.97	2.00	1.00
January - March	1999	1.72	1.19	1.78	1.22
April - June	1999	1.41	1.03	1.50	1.09
July - September	1999	1.16	0.91	1.16	0.94
October - December	1999	3.19	0.69	3.25	0.72
January - March	2000	4.91	1.63	4.94	1.66
April - June	2000	3.31	1.00	4.00	1.50
July - September 25	2000	3.44	1.50	3.47	1.81

On September 6, 2000, the Company had approximately 5,387 stockholders of record of its Common Stock, 12 stockholders of record of its Class B Common Stock, 4 stockholders of record of its Class C Common Stock and 4,637 stockholders of record of its Class A Non-voting Preferred Stock.

At the present time, the only class of the Company's securities for which there is a market is the Common Stock.

The Company paid cash dividends in fiscal 1998 and the first three quarters of fiscal 1999 on monies it received from the enforcement of its patents. Prior to these dividends, the Company had not paid any cash dividends. The Company anticipates paying additional dividends on monies it receives from the enforcement of its patents. Except for these dividends, however, it is expected that the Company will continue to retain earnings to finance the development and expansion of its

Item 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data has been extracted from the Company's consolidated financial statements for the five years ended June 30, 2000. This consolidated selected financial data should be read in conjunction with the consolidated financial statements of the Company and the related notes included in Item 8 of this form. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" for a discussion of the Company's business plan.

<TABLE>
<CAPTION>

STATEMENT OF OPERATIONS

As of, or For the Period Ended June 30,

<S>	2000	1999	1998	1997	1996
Revenues	$39,073,797	$36,945,044	$ 27,554,357	$17,633,066	$13,915,725
Cost of revenues	$30,431,069	$29,391,682	$ 23,841,844	$18,428,574	$14,417,384
Research and Development Expenses	$5,532,325	$ 6,647,555	$ 6,506,995	$ 3,928,035	$ 3,607,703
Net Income (loss)	$(10,955,987)	$(14,215,763)	$ (5,653,086)	$56,068,771	$(11,407,444)
Basic and Diluted Net income (loss) per common share	$ (.17)	$ (.22)	$ (.09)	$ 1.00	$ (.22)
Weighted average number Of shares outstanding *	66,304,716	64,071,151	61,175,986	56,097,965	51,516,470

BALANCE SHEET DATA

Working capital (deficit)	$24,439,609	$37,863,029	$ 54,426,483	$ 62,659,470	$(1,575,857)
Total assets	$84,599,039	$97,648,168	$108,447,780	$ 106,690,561	$28,057,384
Long-term debt and obligations under capital leases	$20,969,186	$24,821,834	$ 16,003,479	$ 4,626,269	$ 4,204,935
Stockholders' equity	$51,284,758	$59,303,773	$72,572,486	$ 73,245,262	$11,412,629

</TABLE>

* Adjusted for stock dividend of Class A Non-voting Preferred Stock declared in October, 1995.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION.

INTRODUCTION.

The Company was formed in 1978 to engage in the business of designing, manufacturing and selling MRI scanners. In 1997, the Company formed a wholly-owned subsidiary, Health Management Corporation of America ("HMCA"), formerly known as U.S. Health Management Corporation, in order to expand into the physician and diagnostic management services business.

FONAR's principal MRI products are its Fonar 360, QUAD and Echo MRI scanners. Fonar also considers it Stand-Up MRI ("Indomitable(TM)") which has been submitted to the FDA for approval, to be one of its most promising new products. The Company believes it is in a position to aggressively seek new sales. The Fonar 360, QUAD and Stand-Up MRI scanners are highly competitive and totally new non-claustrophobic scanners not previously available in the MRI market. At 0.6 Tesla field strength, the QUAD 12000 magnet is the highest field "Open MRI" in the industry, offering non-claustrophobic MRI together with high-field image quality for the first time. The Fonar 360 and Stand-Up MRI(TM) share the fundamental technology of the QUAD scanners and also have a field strength of 0.6 Tesla. The Company's work-in-progress Pinnacle MRI scanner will combine Fonar's iron frame magnet with a superconducting driver, and is expected to have a field strength between 0.6 and 1.0 Tesla. The Company expects vigorous sales from its new products. Fonar also offers the Echo, a low cost open MRI scanner. (See "Description of Business - Products, Works-in-Progress and Product Marketing.")

As part of its scanner marketing program, the Company has attended the industry's annual trade show, RSNA (Radiological Society of North America) since 1995 and plans to do so again in November 2000. The Company believes that it is uniquely positioned to take advantage of the rapidly expanding "Open MRI" market, as the manufacturer of the only high-field "Open MRI" in the industry. The Company expects marked demand for its products since image quality increases as a direct proportion to magnetic field strength. When commercially available, Fonar's Stand-Up MRI is expected to be the only MRI capable of producing images in the weight bearing state. In addition, the Company's new scanners provide improved image quality and high speed imaging at costs that are significantly less than the competition and more in keeping with the medical cost reduction demands being made by our national leaders on behalf of the public.

HMCA generates revenues from providing comprehensive management services (including development, administration, accounting and billing and collection services) together with office space, medical equipment, supplies and non-medical personnel to its clients. Revenues are in the form of management and leasing fees. HMCA has completed five acquisitions since it was formed in March 1997.

The first acquisition was of a group of companies engaged in the business of managing three diagnostic imaging centers and one multi-specialty practice in New York State (the "Affordable Companies"). The second acquisition was of Raymond V. Damadian, M.D. MR Scanning Centers Management Company ("RVDC"), a company owned by FONAR's principal stockholder, President and Chairman of the Board, Raymond V. Damadian. The business of RVDC, which is being continued by HMCA, was the management of MRI diagnostic imaging centers in New York, Florida, Georgia and other locations. The third acquisition was the acquisition of the business and assets of Central Health Management Co., LLC ("Central Health") a multi-specialty management service organization (MSO) in Yonkers, New York. The fourth acquisition was the acquisition of A & A Services, Inc. ("A & A"), an MSO managing four primary care practices in Queens County, New York, and the fifth acquisition was the acquisition of Dynamic Health Care Management, Inc. ("Dynamic"), an MSO managing three multi-specialty physician practices in Nassau and Suffolk Counties in New York.

In addition, HMCA sponsored the opening of and manages two multi-specialty facilities. These facilities are located in Orlando, Florida and Elmhurst, New York.

HMCA did not actively engage in business until after June 30, 1997, which was the effective date of its acquisitions of the Affordable Companies and RVDC. As separate businesses, the Affordable Companies had been engaged in business since 1994 and RVDC had been engaged in business since 1990. For financial statement presentation the results of operations, assets and liabilities of the Company and RVDC have been consolidated for prior periods. The Affordable Companies, Central Health, A & A and Dynamic, have been consolidated effective as of the dates of their respective acquisitions (June 30, 1997, January 23, 1998, March 20, 1998 and August 20, 1998, respectively).

The Company has assessed the impact of the Year 2000 Issue (Y2K) on its financial reporting systems and operations. The Year 2000 Issue was the result of computer programs being written using two digits (rather than four) to define the applicable year. The Company developed a plan to meet this issue, and reviewed all in-house computer based systems and its existing customer base of MRI Scanners. The Company has successfully implemented the Y2K plan and all systems were upgraded or replaced with little or no impact on operations. Y2K compliant software was installed on the Company's MRI scanners. The scanners transitioned to the year 2000 successfully. Costs of addressing these items did not have a material adverse impact on the Company's financial position.

RESULTS OF OPERATIONS. FISCAL 2000 COMPARED TO FISCAL 1999

In fiscal 2000, the Company experienced a net loss of $11.0 million on revenues of $39.1 million as compared to net loss of $14.2 million on revenues of $36.9 million for fiscal 1999. This represents a decrease in the net loss of 22.5% and an increase in revenues of 6%.

Revenues attributable to the Company's physician and diagnostic management services segment (HMCA) increased by 8.6% to $34.0 million in fiscal 2000 from $31.3 million in fiscal 1999. The primary reason for this increase was the increased management fee revenue from two MRI facilities and one physical medicine and rehabilitation practice managed by HMCA.

Operating income of $2.5 million was recognized from the Company's physician and diagnostic management services in fiscal 2000, as compared to an operating income of $3.1 million in fiscal 1999, representing a decrease of 19.4%.

Revenues attributable to the Company's medical equipment segment declined by 4.6% to $6.2 million in fiscal 2000 from $6.5 million in fiscal 1999, reflecting the effect of an $800,000 decrease in service and repair revenues. This decrease in service and repair revenues is attributable to the retirement and replacement of older scanners by Fonar's customers.

Results of operations for the medical equipment segment declined by 1.1% from a loss of $18.7 million in fiscal 1999 to a loss of $18.9 million in fiscal 2000.

The Company's consolidated operating loss increased by 5.1% to a loss of $16.4 million for fiscal 2000 from a loss of $15.6 million for fiscal 1999, a further improvement from the operating loss of $17.6 million for fiscal 1998.

Other income of $1.0 million (principally the net proceeds from the Company's patent enforcement lawsuits) and investment income of $2.1 million were recognized by the Company in fiscal 1999 as compared to other income of approximately $5.6 million (principally the net proceeds from the Company's patent enforcement lawsuits) and investment income of $1.9 million in fiscal 2000. This represents an increase of 460% in other income and a decrease of 9.5% in investment income.

Costs of revenues and expenses increased by 5.5% from $52.6 million in fiscal 1999 to $55.5 million in fiscal 2000. The increase in selling, general and administrative expenses was attributable primarily to the expansion of HMCA.

Costs of revenue and expenses for the Company's physician and diagnostic management services increased by 8.3% to $23.6 million in fiscal 2000 from $21.8 million in fiscal 1999. As a result, HMCA's operating income declined from $3.1 million in fiscal 1999 to $2.5 million in fiscal 2000.

Research and development expenses decreased by 16.7% to $5.5 million in fiscal 2000 as compared to $6.6 million in fiscal 1999. This decline reflected the capitalization of software costs and the sale of Fonar's foreign subsidiary, which had in recent years accounted for approximately 15% of the consolidated research and development expenses.

Overall, costs of revenues and expenses for the Company's medical equipment segment, however, declined by 3.2% to $24.3 million in fiscal 2000 from $25.1 million in fiscal 1999.

This reflects reductions of 10.2% in costs of product sales from $4.4 million in fiscal 2000 to $4.9 million in fiscal 1999. This also reflects an increase of 13% in selling, general and administrative expenses to $8.7 million in fiscal 2000 from$7.7 million in fiscal 1999.

The increase in compensatory element of stock issuances from approximately $275,000 in fiscal 1999 to $1.9 million in fiscal 2000 reflected greater use of Fonar's stock bonus plan to pay certain highly compensated employees in stock rather than cash.

The higher provision for bad debt of $628,836 in fiscal 1999 as compared to $177,162 in fiscal 2000, reflected the closing in 1999 of a physical medicine and rehabilitation facility managed by HMCA in Latham, New York.

The higher levels of amortization expense in fiscal 1999 and 2000 of approximately $1.2 million in each year reflects the amortization of good will attributable to HMCA's acquisitions.

Revenues generated by sales of QUAD MRI scanners increased by 23% from $2.6 million (7% of total revenues) in fiscal 1999 to $3.2 million (8.4% of total revenues) in fiscal 2000. Revenues attributable to sales of the Company's Ultimate scanners during the same period were $0.00.

Sales of Beta scanners were $430,000 in fiscal 1999 (approximately 1% of total revenues) and $84,255 (approximately 0.2% of total revenues) in fiscal 2000. These represented the sale of refurbished equipment, as the company no longer manufactures Beta scanners.

Product sales revenues for fiscal 2000 included revenues from the sales of three scanners and for fiscal 1999, five MRI scanners, two of which were used scanners which Fonar had reacquired.

Sales to affiliated parties, consisting of professional corporations owned by Dr. Damadian represented approximately 4.5% ($1,752,298) of the Company's revenues in fiscal 2000, as compared to 0.4% ($150,000) of the Company's revenues in fiscal 1999.

Negative gross profit margins on product sales (negative 45.9% in fiscal 1999 and negative 31.7% in fiscal 2000) were principally attributable to medical equipment segment operating at a low level of capacity and reflect the inefficiencies attendant to Fonar's fixed factory overhead expenses, such as salaries and benefits. The Company's strategy is to attempt to hold down the price of its QUAD scanners and to increase profitability by reducing manufacturing costs and increasing volume. The effectiveness of this strategy will not be discernible until higher sales volume for the Company's QUAD scanners is achieved.

To reduce the cost of manufacturing its QUAD scanners, the Company expanded its manufacturing capacity in fiscal 2000 and 1999 by acquiring approximately $2.1 million and $3.8 million, respectively, worth of new capital equipment. In addition, the Company expanded its operating capacity by hiring additional personnel.

Notwithstanding the Company's increased manufacturing activities, revenues attributable to the Company's medical equipment segment declined by 4.6% to approximately $6.2 million in fiscal 2000 from approximately $6.5 million in fiscal 1999. Although product sales remained constant at approximately $3.4 million, service revenue declined 26.1% from $2.3 million in fiscal 1999 to $1.7 million in fiscal 2000. The decline in service revenue reflects the retirement of old scanners by the Company's customers. The Company does not expect the decline in revenue to continue. The Company is enthusiastic about the future of its FONAR 360 product line and Indomitable(TM) scanners which will bring a new plateau of "openness" to diagnostic MRI and a new frontier in surgery for performing surgical treatments using MRI images to guide surgery.

Continuing its tradition as the originator of MRI, the Company remained committed to maintaining its position as the leading innovator of the industry through aggressive investing in research and development. In fiscal 2000 the Company continued its investment in the development of its new MRI scanners, together with software and upgrades, with an investment of $5,893,648 in research and development ($361,323 of which was capitalized) as compared to $6,647,555 (none of which was capitalized) in fiscal 1999. The research and development expenditure was approximately 116.7% of revenues attributable to the Company's medical equipment segment (and 15.1% of total revenues) in 2000 and $102% of medical equipment segment revenues in 1999 (and 18% of total revenues). This represented a decline of approximately 10.6% in research and development expenses from fiscal 1999 to fiscal 2000.

The Company has continued its efforts to increase scanner sales in foreign countries as well as domestically. Based on sales to date, further indications of interest, meetings, sales trips abroad and negotiations, the Company is optimistic that foreign sales will prove a significant source of revenue.

The Company continued to benefit as a result of programs set in motion in fiscal 1989; namely strict cost containment initiatives and expanding the corporate business into a greater number of profitable enterprises within and related to the MRI and medical industries (e.g., physician and diagnostic management services, customer service, upgrades). As a result of this expansion, the percentage of the Company's revenue derived from sources other than scanner sales was approximately 91.4% for fiscal 2000 and 90.9% for fiscal 1999.

During the fiscal year ended June 30, 2000, the Company realized income of approximately $5.6 million from the settlement of various legal disputes (essentially its patent infringement actions) as compared to approximately $1.0 million in fiscal 1999. This represented an increase of 460%.

RESULTS OF OPERATIONS. FISCAL 1999 COMPARED TO FISCAL 1998

In fiscal 1999, the Company experienced a net loss of $14.2 million on revenues of $36.9 million as compared to a net loss of $5.7 million on revenues of $27.6 million for fiscal 1998. This represented an increase in the net loss of 149% and an increase in revenues of 33.7%.

As a result of HMCA's acquisitions, revenues attributable to the Company's physician and diagnostic management services segment (HMCA) increased dramatically, to $31.3 million in fiscal 1999 from $21.1 million in fiscal 1998, representing an increase of 48.3%. Of this $10.2 million increase, $5.9 million was attributable to the acquisition of Dynamic Health Care Management, Inc., $3.5 million was attributable to the acquisition of A & A Services, Inc. and $300,000 was attributable to the acquisition of Central Health Management.

Operating income of $3.1 million was recognized from the Company's physician and diagnostic management services in fiscal 1999, as compared to income of $2.7 million in fiscal 1998, representing an increase of 14.8%.

Revenues attributable to the Company's medical equipment segment declined by 16.7% to $6.5 million in fiscal 1999 from $7.8 million in fiscal 1998, reflecting lower sales volume in fiscal 1999.

Results of operations for the medical equipment segment improved, however, from a loss of $20.3 million in fiscal 1998 to a loss of $18.7 million in fiscal 1999, representing a 7.9% improvement.

Other income of $8.6 million (principally the net proceeds from the Company's patent enforcement lawsuits) and investment income of $3.7 million were recognized by the Company in fiscal 1998 as compared to other income of $1.0 million (principally the net proceeds from the Company's patent enforcement lawsuits) and investment income of $2.1 million in fiscal 1999, representing a decline of 88.4% in other income and 43.2% in investment income.

Costs of revenues and expenses increased by 16.6% from $45.1 million in fiscal 1998 to $52.6 million in fiscal 1999, reflecting the expansion of the Company's physician and diagnostic management services operations and an increase in research and development in the medical equipment segment.

Costs of revenue and expenses for the Company's physician and diagnostic management services increased by 59.1% to $21.8 million in fiscal 1999 from $13.7 million in fiscal 1998.

Research and development expenses increased by 1.5% to $6.6 million in fiscal 1999 as compared to $6.5 million in fiscal 1998.

Overall, costs of revenues and expenses for the Company's medical equipment segment, however, declined by 10.7% to $25.1 million in fiscal 1999 from $28.1 million in fiscal 1998 reflecting, most significantly, a decrease in costs of product sales of 37.2% to $4.9 million in fiscal 1999 as compared to $7.8 million in fiscal 1998.

Revenues generated by sales of QUAD MRI scanners were $4.1 million (approximately 15% of total revenues) in fiscal 1998 and $2.6 million (7% of total revenues) in fiscal 1999,representing a decrease of 36.6%. Revenues attributable to sales of the Company's Ultimate scanners during the same period were $0.00.

Sales of Beta scanners were $0.00 in fiscal 1998 and $430,000 in fiscal 1999.

Product sales revenues for fiscal 1999 included revenues from the sale of five scanners, two of which were used, and for fiscal 1998, five MRI scanners.

Sales to affiliated parties represented approximately 0.4% ($150,000) of the Company's revenues in fiscal 1999, as compared to approximately 0.3% ($100,000) in fiscal 1998.

Gross profit margins on product sales to unrelated parties were negative (98%) in fiscal 1998 and negative (49%) in fiscal 1999. This reflected the losses on sales of the Company's QUAD scanners.

To reduce the cost of manufacturing its QUAD scanners, the Company expanded its manufacturing capacity in fiscal 1999 and 1998 by acquiring approximately $3.8 million and $1.4 million, respectively, worth of new capital equipment. In addition, the Company expanded its operating capacity by hiring additional personnel.

Notwithstanding the Company's increased manufacturing activities, revenues attributable to the Company's medical equipment segment declined by 16.7% to approximately $6.5 million in fiscal 1999 from approximately $7.8 million in fiscal 1998. This trend reflected a decline in service revenue of 8% from $2.5 million in fiscal 1998 to $2.3 million in fiscal 1999 and a decrease of 12.8% in product sales in fiscal 1999 to $3.4 million from $3.9 million from fiscal 1998.

In fiscal 1999 the Company continued its investment in the development of its new MRI scanners, together with software and upgrades, with an investment of $6,647,555 in research and development as compared to $6,506,995 in fiscal 1998. None of these expenditures were capitalized. The research and development expenditure was approximately 102% of revenues attributable to the Company's medical equipment segment and 18% of total revenues in 1999 and $83.3% of medical equipment segment revenues and 23.6% of total revenues in fiscal 1998.

During the fiscal year ended June 30, 1999, the Company realized income of approximately $1.0 million from the settlement of various legal disputes, which were essentially its patent infringement actions, as compared to approximately $8.6 million in fiscal 1998.

LIQUIDITY AND CAPITAL RESOURCES

Cash, cash equivalents and marketable securities declined by 34.2% from $35.4 million at June 30, 1999 to $23.3 million at June 30, 2000. Principal uses of cash during fiscal 2000 included capital expenditures of $2.8 million, repayment of indebtedness and capital lease obligations in the amount of $3.8 million, purchase of treasury stock of $79,000 and $4.7 million to fund the losses for the fiscal year.

Marketable securities approximated $11.5 million as of June 30, 2000 as compared to $20.2 million as of June 30, 1999. From June 30, 1999 to June 30, 2000 the Company reduced its investments in equity securities from approximately $100,000 to $0, reduced its investments in U.S. Government obligations from approximately $11.0 million to $10.2 million and reduced its investments in corporate and government agency bonds from approximately $9.3 million to $1.5 million. This has had the intended effect of reducing the volatility of the Company's investment portfolio.

Cash used in operating activities for fiscal 2000 approximated $4.7 million. Cash used in operating activities was attributable substantially to the funding of the net loss for fiscal 2000.

Cash provided by investing activities for fiscal 2000 approximated $5.5 million. The principal source of cash from investing activities during fiscal 2000 consisted of the proceeds from the sale of marketable securities of $8.6 million less expenditures for property and equipment of approximately $2.8 million.

Cash used in financing activities for fiscal 2000 approximated $4.1 million. The principal uses of cash in financing activities during fiscal 2000 consisted of repayment of principal on long-term debt of approximately $3.8 million.

Total liabilities decreased since June 30, 1999 by approximately $5.0 million, or 13.1% to approximately $33.3 million at June 30, 2000. The decrease in liabilities from June 30, 1999 was attributable to a reduction of approximately $5.6 million in long-term debt.

As at June 30, 2000, the Company's past due obligations consisted of approximately $643,534 in past due taxes (various state taxes). The Company is seeking to enter into payment plans with taxing authorities with respect to past due taxes and to restructure its other past due indebtedness.

As of June 30, 2000, the Company had a bank credit facility of $5,000,000. The unused portion of the facility was approximately $863,000. The interest on loans made under the facility is either the bank's prime rate, as in effect from time to time or 0.5% plus the bank's cost of funds rate, as selected by Fonar when the loan is made.

Advances and notes to affiliates and related parties increased by approximately $597,000 from June 30, 1999 to June 30, 2000. As these are long-term assets, they tend to reduce the Company's liquidity.

The Company's working capital surplus as of June 30, 2000 approximates

$24.9 million, as compared to a working capital surplus of $37.9 million as of June 30, 1999.

The change in the Company's working capital position resulted primarily from its investments in new equipment ($2.8 million), note payments on the purchase prices for HMCA's acquisitions ($3.7 million), its overall operating losses, and an increase in its current liabilities of $560,099 ($18.4 million as at June 30, 2000 as compared to $17.8 million as at June 30, 1999.

As at June 30, 2000, the Company had current assets of $42.8 million and current liabilities of $18.4 million, resulting in working capital of $24.4 million. The Company believes that these resources alone provide an adequate reserve to fund its operations for approximately two years. For the longer term, the Company will need to rely on income generated by sales of its MRI products and the continued profitability of HMCA.

The foregoing trends in Fonar's capital resources are expected to continue until Fonar's MRI scanner products gain wider market acceptance and produce greater sales revenues.

Capital expenditures for each of fiscal 2000 and 1999 approximated $2.8 million and $5.5 million, respectively, and substantially consisted of office and production equipment.

Fonar has not committed to making capital expenditures in the 2001 fiscal year other than its intention to continue research and development expenditures at current levels.

The Company's business plan currently includes an aggressive program for manufacturing and selling its new line of scanners. In addition the Company plans, through its subsidiary, Health Management Corporation of America, to develop and expand its physician and diagnostic management services) business (See "Description of Business").

The Company has developed and begun to implement a new program to finance a portion of the purchase price of its scanners through a newly formed subsidiary, Fonar Acceptance Corporation, and to assist the customer in obtaining the remaining portion of its financing through an independent source or sources. The new program is intended to increase the overall profitability of the Company by assisting in the sale of scanners and participating in the profits derived from financing those sales.

The Company's business plan initiated in September 1989, had as its objective the enhancement and stabilization of revenue streams through the generation of additional income from its installed base of scanners and leasing programs. In addition, the Company instituted strict cost containment programs. While continuing to focus on new sources of income, the Company now has commenced aggressive sales and manufacturing of its new generation of Open MRI scanners and is reemphasizing MRI Scanner sales. In addition, the Company is enhancing its revenue by entering into the physician and diagnostic management services business through its new subsidiary, HMCA.

Cost containment programs continue in force notwithstanding an increase in costs and expenses resulting from increased manufacturing activity and marketing of its MRI scanners and the expansion of HMCA's physician and diagnostic management services business. These programs, which include increasing the portion of manufacturing conducted on the Company's premises, have enabled the Company to achieve significantly lower manufacturing costs than would have otherwise been experienced in the production of its QUAD scanners. This has enabled the Company to pass on to customers a much needed reduction in the sales price of MRI scanners.

The Company's plan calls for a continuing emphasis on providing its customers with enhanced equipment service and maintenance capabilities and delivering state-of-the-art, innovative and high quality equipment upgrades at competitive prices. Fees for on-going service and maintenance from the Company's installed base of scanners were $2.3 million for the year ended June 30, 1999 and $1.7 million for the year ended June 30, 2000 (transactions between the Company and its subsidiaries are eliminated in the consolidation). The Company will continue to aggressively develop and market upgrades and enhancements for previously installed scanners.

The Company believes that the above mentioned financial resources will provide the cash flows needed to achieve the sales, service and production levels necessary to support its operations. In addition, the Company is exploring other financing alternatives which may become available as the success of the previously described programs accelerates.

ITEM 7A. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

The Company has investments in fixed rate instruments. None of the fixed rate instruments in which the Company invests extend beyond June 30, 2005. Below is a tabular presentation of the maturity profile of the fixed rate instruments held by the Company at June 30, 2000.

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

Date	Investments in Fixed Rate Instruments	Weighted Average Interest Rate
6/30/01	4,156,967	6.0%
6/30/02	2,514,105	6.5%
6/30/03	3,378,037	7.0%
6/30/04	1,446,141	6.1%
6/30/05	253,734	7.1%
Total:	11,748,984	
Fair Value at 6/30/00	11,484,176	

All of the Company's revenue, expense and capital purchasing activities are transacted in United States dollars.

See Note 11 to the Company's Financial Statements for information on long term debt.

Item 8.

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

FONAR CORPORATION AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULES

(*) Included in Part II, Item 6 of the Form.

Information required by other schedules called for under Regulation S-X is either not applicable or is included in the consolidated financial statements or notes thereto.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
FONAR Corporation and Subsidiaries

We have audited the accompanying consolidated balance sheets of FONAR Corporation and Subsidiaries as at June 30, 2000 and 1999, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the years in the three-year period ended June 30, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of FONAR Corporation and Subsidiaries at June 30, 2000 and 1999, and the consolidated results of their operations and cash flows for each of the years in the three-year period ended June 30, 2000, in conformity with generally accepted accounting principles.

During each of the years in the three-year period ended June 30, 2000, a significant portion of the Company's revenues was from related parties (see Notes 2, 3, 5, 8 and 20).

/S/ TABB, CONIGLIARO & McGANN, P.C.

New York, New York
September 25, 2000

FONAR CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

ASSETS

	June 30, 2000	June 30, 1999
Current Assets		
Cash and cash equivalents	$11,810,519	$15,175,804
Marketable securities	11,484,176	20,197,698
Accounts receivable, net	14,388,662	13,936,734
Costs and estimated earnings in excess of billings on uncompleted contracts	968,159	1,463,450
Inventories	3,536,169	4,237,778
Investment in sales-type lease with related party	57,832	-
Prepaid expenses and other current assets	604,059	701,433
Total Current Assets	42,849,576	55,712,897
Restricted Cash	5,000,000	5,000,000
Property and Equipment - Net	11,227,454	11,442,493
Advances and Notes to Related Parties, Net of discounts and allowance for doubtful accounts of $904,000 at June 30, 2000 and 1999	1,158,998	1,434,689
Investment in Sales-Type Lease with Related Party	872,603	-
Notes Receivable, Net of allowance for doubtful accounts of $477,456 at June 30, 2000 and 1999	500,810	24,796
Excess of Cost Over Net Assets of Businesses Acquired, Net of accumulated amortization of $2,716,859 and $1,498,166 at June 30, 2000 and 1999, respectively	21,656,990	22,875,683
Other Intangible Assets, Net	1,035,924	888,992
Other Assets	296,682	268,618
Total Assets	$84,599,037	$97,648,168

See accompanying notes to consolidated financial statements.

FONAR CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS' EQUITY

	June 30, 2000	June 30, 1999
Current Liabilities		
Current portion of debt and capital leases	$ 6,224,727	$ 4,474,293
Accounts payable	1,738,847	2,401,926
Other current liabilities	8,966,929	9,920,991
Customer advances	582,551	95,518
Income taxes payable	896,913	957,140
Total Current Liabilities	18,409,967	17,849,868
Long-term Debt and Capital Leases, Less Current Maturities	14,744,459	20,347,541
Other Liabilities	138,338	131,629
	14,882,797	20,479,170
Minority Interest	21,515	15,357
Commitments, Contingencies and Other Matters (Notes 1, 2, 3, 5, 10, 11, 12, 14,17 and 19)		

See accompanying notes to consolidated financial statements.

FONAR CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS' EQUITY

(Continued)

	June 30, 2000	June 30, 1999
Stockholders' Equity		
Common stock - $.0001 par value; authorized - 60,000,000 shares; issued - 56,604,735 and 53,998,906 shares at June 30, 2000 and 1999, respectively; outstanding - 56,315,471 and 53,793,042 shares at June 30, 2000 and 1999, respectively	$ 5,631	$ 5,378
Class B common stock (10 votes per share) - $.0001 par value; authorized - 4,000,000 shares; issued and outstanding - 4,211 and 5,211 shares at June 30, 2000 and 1999, respectively	-	-
Class C common stock (25 votes per share) - $.0001 par value; authorized - 10,000,000 shares; issued and outstanding - 9,562,824 shares at June 30, 2000 and 1999	956	956
Class A non-voting preferred stock - $.0001 par value; authorized - 8,000,000 shares; issued and outstanding - 7,836,286 shares at June 30, 2000 and 1999	784	784
Preferred stock - $.001 par value; authorized - 10,000,000 shares; issued and outstanding - none	-	-
Paid-in capital in excess of par value	98,581,757	95,385,863

Accumulated other comprehensive income	(264,808)	(203,106)
Accumulated deficit	(44,816,824)	(33,860,837)
Notes receivable from stockholders	(1,338,005)	(1,226,148)
Unearned compensation	(213,374)	(206,878)
Treasury stock - 289,264 and 205,864 shares of common stock at June 30, 2000 and 1999, respectively	(671,359)	(592,239)
Total Stockholders' Equity	51,284,758	59,303,773
Total Liabilities and Stockholders' Equity	$ 84,599,037	$ 97,648,168

See accompanying notes to consolidated financial statements.

FONAR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Years Ended June 30,		
	2000	1999	1998
Revenues			
Product sales - net	$ 1,606,229	$ 3,380,467	$ 3,937,726
Product sales - related parties - net	1,752,298	-	-
Service and repair fees - net	1,692,537	2,301,488	2,520,637
Management and other fees - related parties - net	34,022,733	31,263,089	21,095,994
Total Revenues - Net	39,073,797	36,945,044	27,554,357
Costs and Expenses			
Costs related to product sales	2,849,046	4,931,803	7,800,569
Costs related to product sales - related parties	1,573,870	-	-
Costs related to service and repair fees	2,396,609	2,697,695	2,373,808
Costs related to management and other fees - related parties	23,611,544	21,762,184	13,667,467
Research and development	5,532,325	6,647,555	6,506,995
Selling, general and administrative	16,211,414	14,383,842	12,489,539
Compensatory element of stock issuances for selling, general and administrative expenses	1,929,706	275,242	1,108,362
Provision for bad debts	177,162	628,836	929,786
Amortization of excess of cost over net assets of businesses acquired	1,218,693	1,225,942	272,224
Total Costs and Expenses	55,500,369	52,553,099	45,148,750
Loss from Operations	(16,426,572)	(15,608,055)	(17,594,393)
Interest Expense	(1,710,188)	(2,051,290)	(728,327)
Investment Income	1,919,744	2,110,780	3,708,938
Other Income, Principally Gain on Litigation Awards	5,575,375	1,043,119	8,610,035
Minority Interests in Income of Partnerships	(270,669)	(300,235)	(146,890)
Loss Before Provision for Taxes	(10,912,310)	(14,805,681)	(6,150,637)
Provision (Benefit) for Income Taxes	43,677	(589,918)	(497,551)
Net Loss	$(10,955,987)	$(14,215,763)	$ (5,653,086)
Basic and Diluted Net Loss Per Share	$ (.17)	$ (.22)	$ (.09)
Weighted Average Number of Shares Outstanding	66,304,716	64,071,151	61,175,986

See accompanying notes to consolidated financial statements.

FONAR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE YEAR ENDED JUNE 30, 2000

<TABLE>
<CAPTION>

	Per Share Amount	Class A Common Stock Shares	Class A Common Stock Amount	Class C Common Stock	Class A Non-Voting Preferred Stock	Paid-in Capital in Excess of Par Value	Treasury Stock Amount	Notes Receivable from Stockholders
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance - June 30, 1999	$ -	53,793,042	$ 5,378	$ 956	$ 784	$95,385,863	$ (592,239)	$(1,226,148)
Net loss	-	-	-	-	-	-	-	-
Other comprehensive income, net of tax:								
Unrealized losses on securities arising during the year, net of tax	-	-	-	-	-	-	-	-
Less: Reclassification adjustment for (gains) losses included in net loss -	-	-	-	-	-	-	-	
Exercise of Stock Options	1.13	389,000	39			455,780	-	(391,250)
Purchase of common stock	.95	-	-	-	-	-	(79,120)	-
Stock issued to employees under stock bonus plans	2.00	193,523	20	-	-	396,662	-	-
Issuance of stock in settlement of liabilities	1.51	490,000	49	-	-	742,323	-	-
Shares returned in cancellation of notes receivable	-	-	-	-	-	-	-	-
Issuance of stock under consulting contracts	1.07	1,429,574	143	-	-	1,539,378	-	-
Issuance of stock for acquisition of Central Health Care	3.19	19,332	2	-	-	61,751	-	-
Net reduction in notes receivable from stockholders	-	-	-	-	-	-	-	279,393
Amortization of unearned compensation	-	-	-	-	-	-	-	-
Conversion of Class B common stock to Class A common stock	-	1,000	-	-	-	-	-	-
BALANCE - JUNE 30, 2000		56,315,471	$ 5,631	$ 956	$ 784	$98,581,757	$ (671,359)	$(1,338,005)

</TABLE>
See accompanying notes to consolidated financial statements.

FONAR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE YEAR ENDED JUNE 30, 2000

<TABLE>
<CAPTION>

	Unearned Compensation	Accumulated Other Comprehensive Income	Accumulated Deficit	Total	Comprehensive Income (Loss)
<S>	<C>	<C>	<C>	<C>	<C>
Balance - June 30, 1999	$(206,878)	$ (203,106)	$(33,860,837)	$59,303,773	
Net loss	-	-	(10,955,987)	(10,955,987)	$(10,955,987)
Other comprehensive income, net of tax:					
Unrealized losses on securities arising during the year, net of tax	-	(47,830)	-	(47,830)	(47,830)
Less: Reclassification adjustment for (gains) losses included in net loss	-	(13,872)	-	(13,872)	(13,872)

Exercise of stock options	-	-	-	64,569	-
Purchase of common stock	-	-	-	(79,120)	-
Stock issued to employees under stock bonus plans	-	-	-	396,682	-
Issuance of stock in settlement of liabilities	-	-	-	742,372	-
Shares returned in cancellation of notes receivable	-	-	-	-	-
Issuance of stock under consulting contracts	(726,962)	-	-	812,599	-
Issuance of stock for acquisition of Central Health Care	-	-	-	61,753	-
Net reduction in notes receivable from stockholders	-	-	-	279,393	-
Amortization of unearned compensation	720,466	-	-	720,466	-
Conversion of Class B common stock to Class A common stock	-	-	-	-	-
	-----------	-----------	------------	-----------	------------
BALANCE - JUNE 30, 2000	$ (213,374)	$ (264,808)	$(44,816,824)	$51,284,758	$(11,017,689)
	===========	===========	============	===========	============

</TABLE>

See accompanying notes to consolidated financial statements.

FONAR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE YEAR ENDED JUNE 30, 1999

<TABLE>
<CAPTION>

	Per Share Amount	Class A Common Stock Shares	Class A Common Stock Amount	Class C Common Stock	Class A Non-Voting Preferred Stock	Paid-in Capital in Excess of Par Value	Treasury Stock Amount	Notes Receivable from Stockholders
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance - June 30, 1998	$ -	52,954,465	$ 5,294	$ 956	$ 784	$94,502,717	$ (395,445)	$(1,854,450)
Net loss	-	-	-	-	-	-	-	-
Other comprehensive income, net of tax:								
Unrealized losses on securities arising during the year, net of tax	-	-	-	-	-	-	-	-
Less: Reclassification adjustment for losses included in net loss	-	-	-	-	-	-	-	-
Purchase of common stock	2.03	-	-	-	-	-	(196,794)	-
Stock issued to employees under stock bonus plans	1.54	161,180	16	-	-	206,267	-	-
Issuance of stock in settlement of liabilities	-	463,161	47	-	-	664,609	-	-
Shares returned in cancellation of notes receivable	-	(190,000)	(19)	-	-	(539,357)	-	539,376
Issuance of stock under consulting contracts	1.37	202,018	20	-	-	275,817	-	-
Issuance of stock for acquisition of Central Health Care	1.37	202,018	20	-	-	275,810	-	-
Net change in notes receivable from stockholders	-	-	-	-	-	-	-	88,926
Amortization of unearned compensation	-	-	-	-	-	-	-	-
Conversion of Class B common stock to Class A common stock	-	200	-	-	-	-	-	-
		----------	--------	--------	---------	-----------	----------	------------
BALANCE - JUNE 30, 1999		53,793,042	$ 5,378	$ 956	$ 784	$95,385,863	$ (592,239)	$(1,226,148)
		==========	========	========	=========	===========	==========	============

</TABLE>

See accompanying notes to consolidated financial statements.

FONAR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE YEAR ENDED JUNE 30, 1999

<TABLE>
<CAPTION>

	Unearned Compensation	Accumulated Other Comprehensive Income	Accumulated Deficit	Total	Comprehensive Income (Loss)
<S>	<C>	<C>	<C>	<C>	<C>
Balance - June 30, 1998	$ -	$ (42,296)	$(19,645,074)	$72,572,486	
Net loss	-	-	(14,215,763)	(14,215,763)	$(14,215,763)
Other comprehensive income, net of tax:					
Unrealized losses on securities arising during the year, net of tax	-	(194,647)	-	(194,647)	(194,647)
Less: Reclassification adjustment for losses included in net loss	-	33,837	-	33,837	33,837
Purchase of common stock	-	-	-	(196,794)	
Stock issued to employees under stock bonus plans	-	-	-	206,283	
Issuance of stock in settlement of liabilities	-	-	-	664,656	
Shares returned in cancellation of notes receivable	-	-	-	-	
Issuance of stock under consulting contracts	(275,837)	-	-	-	
Issuance of stock for acquisition of Central Health Care	-	-	-	275,830	
Net change in notes receivable from stockholders	-	-	-	88,926	
Amortization of unearned compensation	68,959	-	-	68,959	
Conversion of Class B common stock to Class A common stock	-	-	-	-	
BALANCE - JUNE 30, 1999	$ (206,878)	$ (203,106)	$(33,860,837)	$59,303,773	$(14,376,573)

</TABLE>

See accompanying notes to consolidated financial statements.

FONAR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE YEAR ENDED JUNE 30, 1998

<TABLE>
<CAPTION>

	Per Share Amount	Class A Common Stock		Class C Common Stock	Class A Non-Voting Preferred Stock	Paid-in Capital in Excess of Par Value	Treasury Stock Amount	Notes Receivable from Stockholders
		Shares	Amount					
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance - June 30, 1997	$ -	49,133,422	$ 4,913	$ 956	$ 785	$90,640,637	$(395,445)	$(1,918,596)
Net loss	-	-	-	-	-	-	-	-
Other comprehensive income, net of tax:								
Unrealized gains on securities, net of tax	-	-	-	-	-	-	-	-
Stock issued to employees under 1995 stock bonus								

plan	2.96	400,430	40	-	-	1,184,838	-	-
Shares issued under 1993 incentive stock option plan	3.00	153,170	15	-	-	459,495	-	-
Issuance of stock under 1986 incentive stock option plan	.37	3,125	1	-	-	1,171	-	-
Issuance of stock in settlement of liabilities	2.75	236,345	23	-	-	650,641	-	-
Shares issued under 1997 non-statutory plan	-	2,600	1	-	-	19,836	-	-
Issuance of stock under consulting contracts	2.79	223,030	22	-	-	622,754	-	-
Additional consideration related to acquisition of Affordable Diagnostics, Inc.	1.60	576,000	57	-	-	923,385	-	-
Issuance of stock in substitution for 4,909,767 warrants	-	2,226,343	222	-	-	(40)	-	-
Net change in notes receivable from stockholders	-	-	-	-	-	-	-	64,146
Amortization of unearned compensation	-	-	-	-	-	-	-	-
Class A preferred stock retired	-	-	-	-	(1)	-	-	-
		----------	--------	---------	---------	-----------	----------	-----------
BALANCE - JUNE 30, 1998		52,954,465	$ 5,294	$ 956	$ 784	$94,502,717	$(395,445)	$(1,854,450)
		==========	========	=========	=========	===========	==========	===========

</TABLE>

See accompanying notes to consolidated financial statements.

FONAR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE YEAR ENDED JUNE 30, 1998

<TABLE>
<CAPTION>

	Unearned Compensation	Accumulated Other Comprehensive Income	Accumulated Deficit	Total	Comprehensive Income (Loss)
<S>	<C>	<C>	<C>	<C>	<C>
Balance - June 30, 1997	$(1,096,000)	$ -	$(13,991,988)	$73,245,262	
Net loss	-	-	(5,653,086)	(5,653,086)	$ (5,653,086)
Other comprehensive income, net of tax:					
Unrealized gains on securities, net of tax	-	(42,296)	-	(42,296)	(42,296)
Stock issued to employees under 1995 stock bonus plan	-	-	-	1,184,878	
Shares issued under 1993 incentive stock option plan	-	-	-	459,510	
Issuance of stock under 1986 incentive stock option plan	-	-	-	1,172	
Issuance of stock in settlement of liabilities	-	-	-	650,664	
Shares issued under 1997 non-statutory plan	-	-	-	19,837	
Issuance of stock under consulting contracts	-	-	-	622,776	
Additional consideration related to acquisition of Affordable Diagnostics, Inc.	-	-	-	923,442	
Issuance of stock in substitution for 4,909,767 warrants	-	-	-	182	
Net change in notes receivable from stockholders	-	-	-	64,146	
Amortization of unearned compensation	1,096,000	-	-	1,096,000	
Class A preferred stock					

retired	-	-	-	(1)	
BALANCE - JUNE 30, 1998	$ -	$ (42,296)	$(19,645,074)	$72,572,486	$ (5,695,382)

</TABLE>

See accompanying notes to consolidated financial statements.

FONAR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended June 30,		
	2000	1999	1998
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	$(10,955,987)	$(14,215,763)	$ (5,653,086)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Minority interest in income of partnerships	270,669	300,235	146,890
Depreciation and amortization	4,670,473	4,657,819	2,917,603
Gain on sale of equipment	-	(53,573)	-
Imputed interest on deferred payment obligations	397,521	482,716	27,000
Provision for bad debts	177,162	628,836	929,786
Compensatory element of stock issuances	1,929,706	275,242	1,108,362
Stock issued in settlement of current liabilities	742,372	664,656	639,715
Liabilities assumed by purchaser on sale of subsidiary	(824,394)	-	-
Deferred income taxes	-	(793,794)	(2,500,000)
(Increase) decrease in operating assets, net:			
Receivable from litigation award	-	-	77,223,460
Accounts and notes receivable	(1,105,104)	(2,747,268)	(3,911,903)
Costs and estimated earnings in excess of billings on uncompleted contracts	495,291	(629,835)	(814,750)
Inventories	701,609	(724,156)	(73,113)
Sales-type lease receivable-related party	(935,000)	-	-
Principal payments received on sales-type lease - related party	4,565	-	-
Prepaid expenses and other current assets	97,374	(415,468)	123,708
Other assets	(3,064)	239,817	(270,830)
Receivables and advances to related parties	275,691	65,425	578,511
Increase (decrease) in operating liabilities, net:			
Accounts payable	(434,425)	372,374	(175,483)
Other current liabilities	(674,669)	56,758	(1,998,835)
Customer advances	487,033	(574,213)	(94,671)
Billings in excess of costs and estimated earnings on uncompleted contracts	-	(31,032)	(161,900)
Other liabilities	6,709	17,966	12,722
Income taxes payable	(60,227)	2,498	802,449
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	(4,736,695)	(12,420,760)	68,855,635

See accompanying notes to consolidated financial statements.

FONAR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended June 30,		
	2000	1999	1998
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment in marketable securities	$ 8,651,820	$ (106,676)	$(20,294,129)
Expenditures for acquisitions	-	(2,651,665)	(4,025,000)
Purchases of property and equipment, net of capital lease obligations of $215,086, $741,663 and $1,391,304 for the years ended June 30, 2000, 1999 and 1998, respectively	(2,807,264)	-	-
Costs of capitalized software development	(361,323)	(4,774,603)	(2,785,795)
Cost of patents and copyrights	-	(19,686)	(19,114)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	5,483,233	(7,552,630)	(27,124,038)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from bank borrowings	-	-	5,000,000
Restricted cash for collateral of bank loan	-	-	(5,000,000)
Repayment of borrowings and capital lease obligations	(3,750,205)	(2,097,596)	(2,260,424)
Proceeds from exercise of stock options and warrants	64,569	-	1,353
Repayments of notes receivable in connection with shares issued under stock option and bonus plans	-	-	600,493
Dividends paid	-	(3,909,366)	(3,945,701)
Purchase of common stock	(79,120)	(196,794)	-
Distributions to holders of minority interests	(347,067)	(398,754)	(237,114)
NET CASH USED IN FINANCING ACTIVITIES	(4,111,823)	(6,602,510)	(5,841,393)
(DECREASE) INCREASE IN CASH	(3,365,285)	(26,575,900)	35,890,204
CASH - BEGINNING OF YEAR	15,175,804	41,751,704	5,861,500
CASH - END OF YEAR	$ 11,810,519	$ 15,175,804	$ 41,751,704

See accompanying notes to consolidated financial statements.

FONAR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2000

NOTE 1 - DESCRIPTION OF BUSINESS

FONAR Corporation (the "Company" or "FONAR") is a Delaware corporation which was incorporated on July 17, 1978. FONAR is engaged in the research, development, production and marketing of medical scanning equipment which uses principles of Magnetic Resonance Imaging ("MRI") for the detection and diagnosis of human diseases. In addition to deriving revenues from the direct sale of MRI equipment, revenue is also generated from its installed base of customers through its service and upgrade programs.

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of FONAR Corporation, its majority and wholly-owned subsidiaries and partnerships and certain medical practices managed as a result of the 1998 acquisitions of A&A Services, Inc. and Dynamic Health Care Management, Inc. Through its contractual arrangements with such medical practices, HMCA has established a controlling financial interest in such medical practices by meeting the conditions of the Emerging Issues Task Force ("EITF"), Consensus No. 97-2. Accordingly, HMCA has commenced consolidation of such medical practices in 1998. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities in the consolidated financial statements and accompanying notes. The most significant estimates relate to contractual and other allowances, income taxes, contingencies and the useful lives of equipment. In addition, healthcare industry reforms and reimbursement practices will continue to impact the Company's operations and the determination of contractual and other allowance estimates. Actual results could differ from those estimates.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment in Marketable Securities

The Company accounts for its investments using Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in debt and Equity Securities" ("SFAS No. 115"). This standard requires that certain debt and equity securities be adjusted to market value at the end of each accounting period. Unrealized market value gains and losses are charged to earnings if the securities are traded for short-term profit. Otherwise, such unrealized gains and losses are charged or credited to comprehensive income.

Management determines the proper classifications of investments in obligations with fixed maturities and marketable equity securities at the time of purchase and reevaluates such designations as of each balance sheet date. At June 30, 2000, all securities covered by SFAS No. 115 were designated as available for sale. Accordingly, these securities are stated at fair value, with unrealized gains and losses reported in comprehensive income. Realized gains and losses on sales of investments, as determined on a specific identification basis, are included in the Consolidated Statement of Operations.

Inventories

Inventories consist of purchased parts, components and supplies, as well as work-in-process, and are stated at the lower of cost (materials, labor and overhead determined on the first-in, first-out method) or market.

Property and Equipment

Property and equipment procured in the normal course of business is stated at cost. Property and equipment purchased in connection with an acquisition is stated at its estimated fair value, generally based on an appraisal. Property and equipment is being depreciated for financial accounting purposes using the straight-line method over the shorter of their estimated useful lives, generally five to seven years, or the term of a capital lease, if applicable. Leasehold improvements are being amortized over the shorter of the useful life or the remaining lease term. Upon retirement or other disposition of these assets, the cost and related accumulated depreciation of these assets are removed from the accounts and the resulting gains or losses are reflected in the results of operations. Expenditures for maintenance and repairs are charged to operations. Renewals and betterments are capitalized.

Excess of Cost Over Net Assets of Businesses Acquired

The excess of the purchase price over the fair market value of net assets of businesses acquired is being amortized using the straight-line method over 20 years.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other Intangible Assets

1) Capitalized Software Development Costs

Certain software development costs incurred subsequent to the establishment of the software's technological feasibility and completion of the research and development on the product hardware, in which it is to be used, are required to be capitalized. Capitalization ceases when the product is available for general release to customers, at which time amortization of capitalized costs begins. Amortization is calculated on the straight-line basis over 5 years.

2) Patents and Copyrights

Amortization is calculated on the straight-line basis over 17 years.

Long-Lived Assets

The Company periodically assesses the recoverability of long-lived assets, including property and equipment, intangibles and excess of cost over net assets of businesses acquired, when there are indications of potential impairment, based on estimates of undiscounted future cash flows. The amount of impairment is calculated by comparing anticipated discounted future cash flows with the carrying value of the related asset. In performing this analysis, management considers such factors as current results, trends, and future prospects, in addition to other economic factors.

Revenue Recognition

Revenue on sales contracts for scanners is recognized under the percentage-of-completion method. The Company manufactures its scanners under specific contracts that provide for progress payments. Production and installation take approximately six months. The percentage of completion is determined by the ratio of costs incurred to date on completed sub-assemblies to the total estimated cost for each scanner.

Contract costs include material, direct labor and overhead. Provisions for estimated losses on uncompleted contracts, if any, are made in the period in which such losses are determined. The asset, "Costs and Estimated Earnings in Excess of Billings on Uncompleted Contracts", represents revenues recognized in excess of amounts billed. The liability, "Billings in Excess of Costs and Estimated Earnings on Uncompleted Contracts", represents billings in excess of revenues recognized.

Revenue on scanner service contracts are recognized on the straight-line method over the related contract period, usually one year.

Revenue from sales of other items are recognized upon shipment.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Revenue under management and lease contracts is recognized based upon contractual agreements for management services rendered by the Company and leases of medical equipment under various long-term agreements with related medical providers (the "PC's"). The PC's are primarily owned by Raymond V. Damadian, M.D., President and Chairman of the Board of FONAR. The management fee arrangements with the medical providers are based on bundled fee arrangements, which include all of the services provided by HMCA, inclusive of equipment lease cost. In the case of contracts with the MRI facilities, fees are charged by HMCA based on the number of procedures performed during a month. In the case of the physical rehabilitation and medical practices, flat fees are charged on a monthly basis. Fees are subject to adjustment on an annual basis, but must be based on mutual agreement.

Research and Development Costs

Research and development costs are charged to expense as incurred. The costs of materials and equipment that are acquired or constructed for research and development activities, and have alternative future uses (either in research and development, marketing or production), are classified as property and equipment and depreciated over their estimated useful lives. Certain software development costs are capitalized. See property and equipment and intangible assets (capitalized software development costs) sections of this note.

Advertising Costs

Advertising costs are expensed as incurred.

Income Taxes

Deferred tax liabilities and assets are determined based on the difference between the financial statement carrying amounts and tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse.

Product Warranty

The Company provides currently for the estimated cost to repair or replace products under warranty provisions in effect at the time of installation (generally for one year).

Customer Advances

Cash advances and progress payments received on sales orders are reflected as customer advances until such time as revenue recognition begins.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Per Share Data

Net income (loss) per common and common equivalent share has been computed based on the weighted average number of common shares and common stock equivalents outstanding during the year. No effect has been given to options outstanding under the Company's Stock Option Plans as no material dilutive effect would result from the exercise of these items.

During fiscal 1998, the Company retroactively adopted Statement of Financial Accounting Standards No. 128, "Earnings Per Share" ("SFAS No. 128"), which requires companies to present basic earnings per share and diluted earnings per share. No adjustments were required as a result of this adoption.

Cash and Cash Equivalents

The Company considers all short-term highly liquid investments with a maturity of three months or less when purchased to be cash or cash equivalents.

At June 30, 2000, the Company had cash deposits of approximately $12,161,117 in excess of federally insured limits.

Restricted Cash

At June 30, 2000 and 1999, $5,000,000 of cash has been pledged as collateral on an outstanding bank loan and has been classified as restricted cash on the accompanying balance sheet.

Fair Value of Financial Instruments

The financial statements include various estimated fair value information at June 30, 2000, 1999 and 1998, as required by Statement of Financial Accounting Standards 107, "Disclosures about Fair Value of Financial Instruments". Such information, which pertains to the Company's financial instruments, is based on the requirements set forth in that Statement and does not purport to represent the aggregate net fair value to the Company.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and cash equivalents: The carrying amount approximates fair value because of the short-term maturity of those instruments.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value of Financial Instruments (Continued)

Accounts receivable and accounts payable: The carrying amounts approximate fair value because of the short maturity of those instruments.

Investment in sales-type leases and investments, advances and notes to affiliates and related parties: The carrying amount approximates fair value because the discounted present value of the cash flow generated by the related parties approximates the carrying value of the amounts due to the Company.

Long-term debt and loans payable: The carrying amounts of debt and loans payable approximate fair value due to the length of the maturities, the interest rates being tied to market indices and/or due to the interest rates not being significantly different from the current market rates available to the Company.

All of the Company's financial instruments are held for purposes other than trading.

Stock-Based Compensation

Effective for fiscal year 1996, the Company adopted SFAS No. 123, "Accounting for Stock-Based Compensation", which permits entities to recognize as expense over the vesting period the fair value of all stock-based awards on the date of grant. Alternatively, SFAS No. 123 also allows entities to continue to apply the provisions of APB Opinion No. 25 and provides proforma net income and proforma earnings per share disclosures for employee stock option grants, as if the fair-value-based method defined in SFAS No. 123 had been applied. The Company has elected to continue to apply the provisions of APB Opinion No. 25 and provide the proforma disclosure provisions of SFAS No. 123.

Stock-based compensation issued to employees and consultants is valued based on the quoted market price of the common stock at the time of issuance.

Comprehensive Income

In November 1997, Statement of Financial Accounting Standard No. 130, "Reporting

Comprehensive Income" ("SFAS No. 130"), was issued which establishes standards for reporting and displaying comprehensive income in a full set of financial statements. SFAS No. 130 defines comprehensive income as changes in equity of a business enterprise during the periods presented, except for transactions resulting from investments by an owner and distribution to an owner. SFAS No. 130 does not require a company to present a statement of comprehensive income if no items are present. The Company adopted SFAS No. 130 during fiscal 1998.

Computer Software

Effective July 1, 1998, the Company adopted the provisions of SOP 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use", which revises the accounting for software development costs and requires the capitalization of certain costs. No adjustments were required as a result of this adoption.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reclassifications

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

NOTE 3 - ACQUISITIONS

Affordable Diagnostics, Inc.

On June 30, 1997, the Company's wholly-owned subsidiary consummated the merger of the assets, liabilities and operations of Affordable Diagnostics, Inc. ("Affordable"), a New York corporation, which managed and operated three diagnostic imaging centers and managed one multi-specialty practice in the Bronx and Westchester, New York. The merger was consummated pursuant to a Merger Agreement ("Agreement") effective June 30, 1997, by and among HMCA's wholly-owned subsidiary, HMCM, Inc. ("HMCM"). Pursuant to the agreement, HMCM acquired all of the assets and liabilities of Affordable through the issuance of 1,764,000 shares of the Company's common stock, valued at $3,630,312, and an additional 576,000 shares of the Company's common stock were issued in June of 1998 valued at $923,442. The additional 576,000 shares were issued in connection with a one-year earnout provision, which was achieved during fiscal 1998.

The merger was accounted for as a purchase, under which the purchase price was allocated to the acquired assets and assumed liabilities based upon fair values at the date of the merger. The excess of the purchase price over the fair value of the net assets acquired amounted to approximately $3,719,000 and is being amortized on a straight-line basis over 20 years. The accompanying consolidated financial statements include the operations of Affordable from the date of the acquisition (June 30, 1997).

Concurrent with the above described transactions, HMCM entered into consulting agreements with the shareholders of Affordable. Under such agreements, 400,000 registered shares of FONAR's common stock, valued at $1,096,000, were issued pursuant to one year consulting agreements with HMCM. The entire $1,096,000 was charged to operations during the year ended June 30, 1998.

Acquisition of RVDC

Effective June 30, 1997, FONAR's wholly-owned subsidiary, HMCA, acquired Raymond V. Damadian, M.D. MR Scanning Centers Management Company ("RVDC") and two affiliates, by purchasing all of the issued and outstanding shares of RVDC from Dr. Damadian for 10,000 shares of the common stock of FONAR. The business of RVDC, continued by HMCA, was the management of MRI diagnostics imaging centers in New York, Florida and Georgia.

The Company has accounted for the acquisition in a manner similar to the pooling-of-interests method due to Dr. Damadian's control over both the Company and RVDC.

NOTE 3 - ACQUISITIONS (Continued)

Central Health Care Management Service, Inc.

On January 23, 1998, a wholly-owned subsidiary of HMCA acquired the business and assets of Central Health Care Management Services, Inc. ("Central"), a management service organization ("MSO"), operating in Westchester County, New York. The purchase price was determined based on a multiple of the net positive cash flow from the acquired business over the succeeding twelve-month period. The purchase price was determined to be $1,454,160, $601,665 payable in cash, $551,665 payable in notes, assumption of liabilities aggregating $25,000, and the balance payable in shares of common stock of FONAR valued at $275,830.

The acquisition was accounted for as a purchase, under which the purchase price was allocated to the acquired assets and assumed liabilities, based upon fair values at the date of the acquisition. The excess of the purchase price over the fair value of the net assets acquired amounted to $1,254,160 and is being amortized on a straight-line basis over 20 years. The accompanying consolidated financial statements include the operations of Central from the date of the acquisition (January 23, 1998).

In April of 1999, HMCA entered into consulting agreements with the former shareholders of Central. Under such agreements, 202,018 registered shares of FONAR's common stock, valued at $275,837, were issued pursuant to consulting agreements covering the one-year period commencing April 1999. For the period ended June 30, 2000, $206,878 was charged to operations related to these agreements.

A&A Services, Inc.

On March 20, 1998, the Company's physician and diagnostic management subsidiary, HMCA, consummated the acquisition of the common stock of A&A Services, Inc. ("A&A"), a New York corporation, which manages four primary care practices in Queens, New York.

Pursuant to the A&A agreements, HMCA acquired all of the common stock of A&A for $4,000,000 in cash, a note payable for $4,000,000 bearing interest at 6.0% per annum, payable in 16 equal quarterly installments of interest and principal, commencing March of 1999, a note payable for $1,293,000, bearing interest at 6.0% per annum, payable in 60 equal monthly installments of principal and interest, commencing April 20, 1998, a deferred payment obligation face amount of $2,000,000 and a contingent payment based on the acquired operations achieving certain earnings objectives over the five-year period following the acquisition date.

The promissory notes are collateralized by all of the assets of the acquired operations and are guaranteed by FONAR.

The acquisition was accounted for as a purchase, under which the purchase price was allocated to the acquired assets and assumed liabilities based upon fair values at the date of the acquisition. The excess of the purchase price over the fair value of the net assets acquired amounted to approximately $10,448,000 and is being amortized on a straight-line basis over 20 years. The accompanying consolidated financial statements include the operations of A&A from the date of the acquisition.

NOTE 3 - ACQUISITIONS (Continued)

A&A Services, Inc. (Continued)

Additional consideration is payable to the former shareholders of A&A, if operating income as defined for the acquired business exceeds $2.3 million in any of the five years following the closing as follows: in each year, 75% of operating income as defined, between $2.3 million and $2.8 million; 50% of operating income as defined between $2.8 million and $3.5 million; and 25% of operating income as defined in excess of $3.5 million. The contingent additional purchase price is not determinable as of June 30, 2000 and, accordingly, has not been included in the allocated purchase price in light of the contingent nature of the arrangement. If the earnings objectives are ultimately achieved, the additional purchase price will be recorded as additional goodwill subject to amortization over the stated period. No additional payments were due under the earnout provision for the years ended June 30, 2000 and 1999. The contingent additional purchase price is not determinable as of June 30, 2000 and, accordingly, has not been included in the allocated purchase price in light of the contingent nature of the arrangement. If the earnings objectives are ultimately achieved, the additional purchase price will be recorded as additional goodwill subject to amortization over the stated period. No additional payments were due under the earnout provision for the years ended June 30, 2000 and 1999.

Dynamic Health Care Management, Inc.

On August 20, 1998, the Company's physician and diagnostic management subsidiary, HMCA, consummated the acquisition of the common stock of Dynamic Health Care Management, Inc. ("Dynamic"), a New York corporation, which manages three physician practices on Long Island, New York. The practices consist of internal medicine, physiatry and physical rehabilitation.

Pursuant to the Dynamic agreements, HMCA acquired all of the common stock of Dynamic for $2,000,000 in cash, a note payable for $1,216,230 bearing interest at 7.5% per annum, payable in sixty monthly installments, commencing one month following the closing date, a note payable for $2,870,000 bearing interest at 7.5% per annum payable in three annual installments of principal and interest commencing one year after the closing date, and promissory notes face amount of $5,490,000, payable in thirty-six monthly installments of principal and interest, commencing two years after the closing date.

The promissory notes are collateralized by all of the assets of the acquired operations and are guaranteed by the Company.

The acquisition was accounted for as a purchase, under which the purchase price was allocated to the acquired assets and assumed liabilities based upon fair values at the date of the acquisition. The excess of the purchase price over the fair value of the net assets acquired amounted to $8,951,907 and is being amortized on a straight-line basis over 20 years. The accompanying consolidated financial statements include the operations of Dynamic from the date of acquisition, August 20, 1998.

NOTE 4 - MARKETABLE SECURITIES

The following is a summary of marketable securities at June 30, 2000 and 1999:

	2000		
	Cost	Unrealized Holding Loss	Fair Market Value
U.S. Government Obligations	$10,198,273	$ (210,045)	$ 9,988,228
Corporate and government agency bonds	1,550,711	(54,763)	1,495,948
	$11,748,984	$ (264,808)	$11,484,176

1999

	Cost	Unrealized Holding Loss	Fair Market Value
U.S. Government Obligations	$11,023,733	$ (18,302)	$11,005,431
Corporate and government agency bonds	9,277,071	(184,304)	9,092,767
Equity securities including mutual stock funds	100,000	(500)	99,500
	$20,400,804	$ (203,106)	$20,197,698

All debt securities are due within five years. Of the cost at June 30, 2000, $4,156,967 is due within one year.

NOTE 5 - ACCOUNTS RECEIVABLE, NET

Accounts receivable, net is comprised of the following:

	2000	1999
Receivable from equipment sales	$ 2,379,609	$ 1,727,535
Receivables from related PC's	14,937,136	15,486,059
Allowance for doubtful accounts and contractual allowances	(2,928,083)	(3,276,860)
	$ 14,388,662	$ 13,936,734

The Company's customers are concentrated in healthcare industry.

The Company's receivable from the related PC's substantially consists of fees outstanding under management agreements, service contracts and lease agreements with related PC's. Payment of the outstanding fees is based on collection by the PC's of fees from third party medical reimbursement organizations, principally insurance companies and health management organizations. F-24

NOTE 5 - ACCOUNTS RECEIVABLE, NET (Continued)

Collection by the Company of its accounts receivable may be impaired by the uncollectibility of medical fees from third party payors, particularly insurance carriers covering automobile no-fault and workers compensation claims due to longer payment cycles and rigorous informational requirements. Approximately 40%, 33% and 25%, respectively, of the PC's 2000, 1999 and 1998 net revenues 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. The Company takes all legally available steps, including legally prescribed arbitrations, to collect its receivables. Credit losses associated with the receivables are provided for in the consolidated financial statements and have historically been within management's expectations.

Net revenues from the related PC's accounted for approximately 87%, 85% and 77% of the consolidated net revenues for the years ended June 30, 2000, 1999 and 1998, respectively.

NOTE 6 - COSTS AND ESTIMATED EARNINGS ON UNCOMPLETED CONTRACTS AND CUSTOMER ADVANCES

1) Information relating to uncompleted contracts as of June 30, 2000 and 1999 is as follows:

	As of June 30,	
	2000	1999

Costs incurred on uncompleted contracts	$ 829,441	$2,522,153
Estimated earnings	138,718	847,047
	968,159	3,369,200
Less: Billings to date	-	1,905,750
	$968,159	$1,463,450

NOTE 6 - COSTS AND ESTIMATED EARNINGS ON UNCOMPLETED CONTRACTS AND CUSTOMER ADVANCES (Continued)

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

	As of June 30,	
	2000	1999
Costs and estimated earnings in excess of billings on uncompleted contracts	$968,159	$1,463,450
Billings in excess of costs and estimated earnings on uncompleted contracts	-	-
	$968,159	$1,463,450

2) Customer advances consist of the following:

	As of June 30,	
	2000	1999
Total advances from customers	$582,551	$2,001,268
Less: Advances from customers on contracts under construction	-	1,905,750
	$582,551	$ 95,518

NOTE 7 - INVENTORIES

Inventories included in the accompanying consolidated balance sheets consist of:

	As of June 30,	
	2000	1999
Purchased parts, components and supplies	$2,916,753	$3,677,568
Work-in-process	619,416	560,210
	$3,536,169	$4,237,778

NOTE 8 - INVESTMENT IN SALES-TYPE LEASE WITH RELATED PARTY

The Company entered into a $935,000 lease agreement with a related party for an MRI scanner which is considered a sales-type lease. The lease is payable in 60 monthly installments of $12,356 each, plus at the end of the 60-month lease, the lessee can elect to continue the lease for an additional five years, at a monthly payment of $12,356, including interest at 10% per annum, or pay a lump sum of $581,544. The Company's investment in sales-type lease as at June 30, 2000 and 1999 is as follows:

	As of June 30,	
	2000	1999
Net minimum lease payments receivable	$1,310,548	$ -
Less: Unearned income	380,113	-
Net Investment in Sales-type Lease	$930,435	$ -
Current portion	$ 57,832	$ -
Non-current portion	872,603	-
	$930,435	$ -

Future minimum lease payments are as follows:

Years Ended June 30,	
2001	$ 57,832
2002	63,888
2003	70,578
2004	77,969
2005	660,168
	$930,435

NOTE 9 - PROPERTY AND EQUIPMENT

Property and equipment, at cost, less accumulated depreciation and amortization, at June 30, 2000 and 1999, is comprised of:

	As of June 30,	
	2000	1999
Diagnostic equipment under lease	$ 1,263,181	$ 1,155,039
Diagnostic equipment	6,776,653	7,325,433
Research, development and demonstration equipment	7,217,601	5,671,375
Machinery and equipment	6,106,145	6,122,494
Furniture and fixtures	3,181,390	3,159,797
Equipment under lease	2,364,088	2,331,423
Leasehold improvements	2,572,728	2,151,819
	29,431,786	27,917,380
Less: Accumulated depreciation and amortization	18,204,332	16,474,887
	$11,227,454	$11,442,493

Depreciation and amortization of property and equipment for the years ended June 30, 2000, 1999 and 1998 was $3,237,384, $3,139,585 and $2,243,535, respectively.

The equipment under lease has a net book value of $1,285,760 and $2,018,490 at June 30, 2000 and 1999, respectively.

NOTE 10 - OTHER INTANGIBLE ASSETS

Other intangible assets, net of accumulated amortization, at June 30, 2000 and 1999 are comprised of:

	As of June 30, 2000	As of June 30, 1999
Capitalized software development costs	$1,560,941	$1,199,618
Patents and copyrights	1,125,808	1,125,808
	2,686,749	2,325,426
Less: Accumulated amortization	1,650,825	1,436,434
	$1,035,924	$888,992

Capitalized computer software costs are being amortized over 5 years. Patents costs are being amortized over 17 years.

Amortization of other intangible assets for the years ended June 30, 2000, 1999 and 1998 was $214,391, $292,295 and $401,984, respectively, of which $148,167, $208,098 and $238,474, respectively, relate to amortization expense for software development costs.

NOTE 11 - CAPITAL STOCK

Common Stock

Cash dividends payable on the common stock shall, in all cases, be on a per share basis, one hundred twenty percent (120%) of the cash dividend payable on shares of Class B common stock and three hundred sixty percent (360%) of the cash dividend payable on a share of Class C common stock. In addition, as revised pursuant to a legal settlement agreement on April 29, 1997, a special cash dividend shall be payable in an amount equal to 3-1/4% on first $10 million, 4-1/2% on next $20 million, and 5-1/2% on amounts in excess of $30 million of the amount of any cash awards or settlements received by the Company in connection with the enforcement by the Company of United States Patent No. 3,789,832 (Apparatus and Method of Detecting Cancer in Tissue). Pursuant to such dividend entitlement, the Company recorded an obligation of $2,551,146, or approximately $.05 per share of common stock, during fiscal 1997, which was paid during 1998 and 1999.

NOTE 11 - CAPITAL STOCK (Continued)

Class B Common Stock

Class B common stock is convertible into shares of common stock on a one-for-one basis. Class B common stock has 10 votes per share. During the year ended June 30, 2000, 1,000 shares of Class B common stock were converted to common stock leaving 4,211 of such shares outstanding as of June 30, 2000.

Class C Common Stock

On April 3, 1995, the shareholders ratified a proposal creating a new Class C common stock and authorized the exchange offering of three shares of Class C common stock for each share of the Company's outstanding Class B common stock. The Class C common stock has 25 votes per share, as compared to 10 votes per share for the Class B common stock and one vote per share for the common stock. The Class C common stock was offered on a three-for-one basis to the holders of the Class B common stock. Although having greater voting power, each share of Class C common stock has only one-third of the rights of a share of Class B common stock to dividends and distributions. Class C common stock is convertible into shares of common stock on a three-for-one basis. During the year ended June 30, 1996, approximately 3.2 million shares of Class B common stock were converted to Class C common stock.

Class A Non-Voting Preferred Stock

On April 3, 1995, the shareholders ratified a proposal consisting of the creation of a new class of Class A non-voting preferred stock with special dividend rights and the declaration of a stock dividend on the Company's common stock consisting of one share of Class A non-voting preferred stock for every five shares of common stock. The stock dividend was payable to holders of common stock on October 20, 1995. Class A non-voting preferred stock issued pursuant to such stock dividend approximates 7.8 million shares.

The Class A non-voting preferred stock is entitled to a special dividend equal to 3-1/4% of first $10 million, 4-1/2% of next $20 million and 5-1/2% on amount in excess of $30 million of the amount of any cash awards or settlements received by the Company in connection with the enforcement of five of the Company's patents in its patent lawsuits, less the revised special dividend payable on the common stock with respect to one of the Company's patents. Pursuant to such dividend entitlement, the Company recorded an obligation of $5,086,695, or $.65 per share of Class A preferred stock, during fiscal 1997 and $217,226, or $.03 per share of Class A preferred stock, during fiscal 1996. During fiscal 1998 and 1999, these dividend obligations were paid.

NOTE 11 - CAPITAL STOCK (Continued)

The Class A non-voting preferred stock participates on an equal per share basis with the common stock in any dividends declared and ranks equally with the common stock on distribution rights, liquidation rights and other rights and preferences (other than the voting rights).

The above described features essentially enable the holders of the Class A non-voting preferred stock to share in the earnings potential of the Company on substantially the same basis as the common stock. Accordingly, the Company has classified the Class A non-voting preferred stock as a common stock equivalent. Earnings per share and weighted average shares outstanding have been restated to reflect the Class A non-voting preferred stock dividend.

Options

The Company has stock option plans which provide for the awarding of incentive and non-qualified stock options to employees, directors and consultants who may contribute to the success of the Company. The options granted vest either immediately or ratably over a period of time from the date of grant, typically three or four years, at a price determined by the Board of Directors or a committee of the Board of Directors, generally the fair value of the Company's common stock at the date of grant. The options must be exercised within ten years from the date of grant.

Stock option share activity and weighted average exercise prices under these plans and grants for the years ended June 30, 2000, 1999 and 1998 were as follows:

	Number of Shares	Weighted Average Exercise Price
Outstanding, June 30, 1997	185,860	$ 4.62
Granted	556,200	2.99
Exercised	(559,325)	2.98
Forfeited	-	-

Outstanding, June 30, 1998	182,735	4.62
Granted	205,000	1.23
Exercised	-	-
Forfeited	-	-
Outstanding, June 30, 1999	387,735	4.62
Granted	413,000	1.52
Exercised	(374,000)	1.15
Forfeited	-	-
Outstanding, June 30, 2000	426,735	$ 2.83
Exercisable at:		
June 30, 1998	182,735	$ 4.62
June 30, 1999	387,735	$ 4.62
June 30, 2000	426,735	$ 2.83

NOTE 11 - CAPITAL STOCK (Continued)

Options (Continued)

The exercise price for options outstanding as of June 30, 2000 ranged from $0.75 to $5.00.

On March 10, 1997, HMCA adopted the 1997 Incentive Stock Option Plan, pursuant to which HMCA authorized the issuance of up to 2,000,000 shares (as adjusted for the 8,000-for-1 stock split effective December 15, 1998) of the common stock of HMCA. Options to purchase 1,600,000 shares at an option price of $0.10 per share (as adjusted) were granted on March 10, 1997. One half of the options granted will not become exercisable unless and until the earlier of such time as HMCA successfully completes a public offering of its securities, or HMCA recognizes at least $10,000,000 in revenues for two consecutive fiscal quarters. The remainder of the options will not become exercisable until one year thereafter. The options will expire on March 9, 2007. No options have vested as of June 30, 2000.

On December 16, 1998, HMCA adopted the 1998 Non-Statutory Stock Option Plan, pursuant to which HMCA authorized the issuance of up to 500,000 shares of the common stock of HMCA. Options to purchase 500,000 shares at an option price of $1.00 per share were granted on December 16, 1998. The options granted will not become exercisable unless and until such time as HMCA successfully completes a public offering of its securities. The options will expire on December 15, 2008. No options have vested as of June 30, 2000.

On December 16, 1998, HMCA adopted the 1998 Incentive Stock Option Plan, pursuant to which HMCA authorized the issuance of up to 2,000,000 shares of the common stock of HMCA. Options to purchase 670,000 shares at an option price of $1.00 per share were granted on December 16, 1998. 470,000 of the options granted will not become exercisable unless and until such time as HMCA successfully completes a public offering of its securities, and 200,000 of the options will not become exercisable until one year thereafter. The options will expire on December 15, 2008. No options have vested as of June 30, 2000.

NOTE 11 - CAPITAL STOCK (Continued)

Options (Continued)

Stock option share activity and weighted average exercise prices under the HMCA plans and grants for the three years ended June 30, 2000, 1999 and 1998 were as follows:

	Number of Shares	Weighted Average Exercise Price
Outstanding - June 30, 1998 and 1997	1,600,000	$ .10
Granted - June 30, 1999	1,170,000	1.00
Outstanding - June 30, 2000 and 1999	2,770,000	$ .48
Exercisable at June 30, 2000, 1999 and 1998	-	$ -

The Company accounts for its stock option plans under APB Opinion No. 25, under which no compensation cost has been recognized. Had compensation cost for these plans been determined consistent with FASB Statement No. 123, the Company's net loss and loss per share would have been effected for the years ended June 30, 2000, 1999 or 1998 as follows:

	2000	1999	1998
Net Loss:			
As reported	$ 10,955,987	$ 14,215,763	$5,653,086
Proforma	$ 11,059,237	$ 14,256,763	$5,908,938
Loss Per Share:			
As reported	$0.17	$0.22	$0.09
Proforma	$0.17	$0.22	$0.10

The fair value of the options granted under all plans is estimated at $0.23, $0.20 and $0.46, respectively, on the date of grant using the Black-Scholes option-pricing model based on the following assumptions for the years ended June 30, 2000, 1999 and 1998:

All Plans:	
Dividend yield	0%
Expected volatility	33%
Expected life (years)	1

The risk-free interest rates were based upon a rate with maturity equal to expected term. U.S. Treasury instruments were utilized. The weighted average interest rate amounted to 5.0%.

NOTE 11 - CAPITAL STOCK (Continued)

Stock Bonus Plans

On May 9, 1997 and April 1, 1995, the Board of Directors adopted Stock Bonus Plans. Under the terms of the Plans, 5,000,000 shares of common stock were reserved for issuance and stock bonuses may be awarded no later than May 8, 2007 for the 1997 Plan and March 31, 2005 for the 1995 Plan. During fiscal 2000, 1999 and 1998, 2,148,429, 826,359 and 849,205 shares, respectively, were issued under the stock bonus plans, of which 234,677, 161,180 and 4,300 shares, respectively, were charged to operations as compensation expense, 490,000, 463,161 and 621,875 shares, respectively, were issued in settlement of liabilities, 19,332, -0- and 10,600 shares, respectively, were issued in exchange for notes, 1,403,420, 202,018 and 223,030 shares, respectively, were issued in connection with consulting agreements, and 1,000, -0- and -0- shares, respectively, were issued upon conversion of Class B to Class A common stock.

NOTE 12 - LONG-TERM DEBT, NOTES PAYABLE AND CAPITAL LEASES

Long-term debt, notes payable and capital leases consist of the following:

	June 30,	
	2000	1999
Construction loan converted into a capital lease obligation during August 1998. The obligation requires equal monthly payments aggregating $13,097, including interest at 13.2% per annum, through August 2003. The obligation is collateralized by the related equipment.	$ 387,580	$ 494,030
Promissory note payable to a bank, collateralized by $5 million certificate of deposit, requiring monthly payments of interest only, at a variable rate based on the bank's prime rate (7.22% at June 30, 2000) with payment of the entire principal due on March 20, 2003.	5,000,000	5,000,000
Note payable to the former shareholders of A&A Services, Inc. The note calls for 16 quarterly payments of $300,044, including interest at a rate of 6%, commencing March 20, 1999. The note is collateralized by all of the assets of the acquired business and guaranteed by FONAR.	2,767,060	3,763,565
Note payable to the former shareholder of A&A Services, Inc. The note calls for 60 equal monthly installments of principal and interest of $25,000, including interest at a rate of 6% per annum, commencing April 20, 1998. The note is collateralized by all of the assets of the acquired business and guaranteed by FONAR.	758,788	1,005,180

NOTE 12 - LONG-TERM DEBT, NOTES PAYABLE AND CAPITAL LEASES (Continued)

	June 30,	
	2000	1999
Note payable calling for monthly payments of $9,034, including interest at a rate of 8.875% through July 2002. The loan is collateralized by equipment located in Ellwood, Pennsylvania.	$ 205,262	$ 290,984

Note payable to the former shareholders of Dynamic Health Care Management, Inc. The note calls for three annual payments of principal, including interest at a rate of 6%, commencing August 20, 1999. The note is collateralized by all of the assets of the acquired business and guaranteed by FONAR.	1,877,776	2,807,742
Note payable to the former shareholders of Dynamic Health Care Management, Inc. The note calls for monthly installments of principal and interest of $65,417 for the first eight installments, followed by $16,667 for the remaining 52 installments. The installments include interest at a rate of 7.5% per annum. The note is collateralized by all of the assets of the acquired business and guaranteed by FONAR.	564,341	717,327

NOTE 12 - LONG-TERM DEBT, NOTES PAYABLE AND CAPITAL LEASES (Continued)

	June 30,	
	2000	1999
Deferred payment obligation, aggregating $5,490,000, payable to the former shareholders of Dynamic Health Care Management, Inc. The obligation is payable over three years, commencing August 20, 2000, with interest at 7.5% per annum. The obligation has been recorded, net of discount of $739,324, representing the value of the two-year interest-free provision of this obligation. A $100,000 principal payment was made in November 1998. The obligation is collateralized by all of the assets of the acquired business and guaranteed by FONAR.	$ 5,337,913	$ 5,025,392
Deferred payment obligation, aggregating $2,000,000, payable to the former shareholder of A&A Services, Inc. The obligation is payable over four years, commencing December 20, 2000, with interest at 6% per annum. The obligation has been recorded, net of a discount of $220,000, representing interest imputed at a rate of 6% over two years. The obligation is collateralized by all of the assets of the acquired business and guaranteed by FONAR.	2,000,000	1,915,000

NOTE 12 - LONG-TERM DEBT, NOTES PAYABLE AND CAPITAL LEASES (Continued)

June 30,

	2000	1999
Four promissory notes payable to the former shareholders of Central health Care Management Services, LLC. Each note calls for two equal annual installments of $11,458, plus interest at prime rate, plus 2%, per annum (11.50% at June 30, 2000), commencing April 2000. The obligations under each note are guaranteed by FONAR.	$ 68,749	$ 91,665
Four promissory notes payable to the former shareholders of Central Health Care Management Services, LLC. Each note calls for two equal annual installments of $57,500, plus interest at prime rate, plus 2% per annum (11.50% at June 30, 2000), commencing March 2000. The obligations under each note are guaranteed by FONAR.	283,247	460,000
Capital lease requiring monthly payments of $12,595, including interest at a rate of 9% through October 1, 2002. The loan is collateralized by related equipment.	247,824	392,848
Capital lease dated October 13, 1995 - $513,692, due $11,173 per month, commencing October 1995, including interest of 11% for 60 months. The lease is collateralized by the related equipment.	183,243	266,942
Capital lease dated June 4, 1996 - $412,550, due $8,972 per month, commencing July 1996, including interest of 11% for 60 months. The lease is collateralized by the related equipment.	174,407	253,31

NOTE 12 - LONG-TERM DEBT, NOTES PAYABLE AND CAPITAL LEASES (Continued)

	June 30,	
	2000	1999
Capital lease obligations requiring monthly payments, aggregating $24,750, including interest at 13.15%.	$ -	$ 430,890
Other (including capital leases for property and equipment)	1,112,996	1,906,957
	20,969,186	24,821,834
Less: Current maturities	6,224,727	4,474,293
	$14,744,459	$20,347,541

The maturities of long-term debt, including debt in arrears, over the next five years and thereafter are as follows:

Years Ended
June 30,

2001	$ 6,224,727
2002	6,066,441
2003	8,401,334
2004	247,760
2005	28,924
	$20,969,186

NOTE 13 - INCOME TAXES

Components of the provision (benefit) for income taxes are as follows:

	2000	1999	1998
Current:			
Federal	$ -	$ -	$1,700,000
State	43,677	203,876	302,449
	43,677	203,876	2,002,449
Deferred:			
Federal	-	(659,794)	(2,500,000)
State	-	(134,000)	-
	-	(793,794)	(2,500,000)
Totals	$ 43,677	$ (589,918)	$ (497,551)

A reconciliation of the federal statutory income tax rate to the Company's effective tax rate as reported is as follows:

	2000	1999	1998
Taxes at federal statutory rate	(34.0)%	(34.0)%	(34.0)%
State and local income taxes, net of federal benefit	.4	0.3	3.3
Permanent differences	1.1	0.8	1.7
Unutilized net operating losses and tax credits	32.9	28.9	20.9
Effective income tax rate	0.4%	(4.0)%	(8.1)%

NOTE 13 - INCOME TAXES (Continued)

As of June 30, 2000, the Company has net operating loss carryforwards of approximately $26,240,000 that will be available to offset future taxable income. Of these carryforwards, $15,500,000 and $10,740,000 expire on June 30, 2018 and 2019, respectively. Additionally, for federal income tax purposes, the Company has tax credit carryforwards aggregating $2,016,760, which are accounted for under the flow through method. The tax credit carryforwards expire as follows:

June 30:	
2005	$202,017
2006	101,334
2007	258,200
2008	172,207
2016	70,145
2017	402,590
2018	432,195
2019	378,072
	$2,016,760

In addition, for New York State income tax purposes, the Company has tax credit carryforwards aggregating $1,120,000, which are accounted for under the flow-through method. The tax credit carryforwards expire during the years 2006 to 2015.

Significant components, tax effected, of the Company's deferred tax assets and liabilities at June 30, 2000 and 1999 are as follows:

	2000	1999
Deferred tax assets:		
Allowance for doubtful accounts	$1,022,807	$ 868,094
Non-deductible accruals	621,067	737,444
Net operating carryforwards	9,896,000	5,600,000
Tax credits	3,136,906	3,066,761
Inventory capitalization for tax purposes	84,000	148,000
	14,760,780	10,420,299
Valuation allowance	(13,924,203)	(9,221,699)
Net deferred tax assets	836,577	1,198,600
Deferred tax liabilities:		
Fixed assets and depreciation	661,019	1,107,776
Capitalized software costs	175,558	90,824
Gross deferred tax liabilities	836,577	1,198,600
Net deferred tax liabilities	$ -	$ -

The net change in the valuation allowance for deferred tax assets increased by approximately $4,702,504.

NOTE 14 - OTHER CURRENT LIABILITIES

Included in other current liabilities are the following:

	2000	1999
Unearned revenue on service contracts	$ 775,032	$ 702,406
Accrued bonus	729,546	1,187,742
Accrued payroll taxes	282,158	443,830
Accrued interest	259,224	237,270
Accrued salaries and commissions	870,663	955,500
Accrued professional fees	653,102	561,938
Litigation judgements	2,440,037	2,478,794
Excise and sales taxes	1,847,805	1,789,039
Other	1,109,362	1,564,472
	$ 8,966,929	$ 9,920,991

NOTE 15- COMMITMENTS AND CONTINGENCIES

Leases

The Company rents its operating facilities and certain equipment pursuant to operating lease agreements expiring at various dates through February 2009. The leases for certain facilities contain escalation clauses relating to increases in real property taxes as well as certain maintenance costs.

Future minimum lease commitments consisted of the following at June 30, 2000:

Year Ended June 30,	Facilities and Equipment	Capital
2001	$ 2,842,411	$ 1,125,425
2002	2,795,293	468,376
2003	2,456,311	320,786
2004	2,263,351	63,097
2005	1,419,919	32,637
Thereafter	5,057,702	-
Total minimum obligations	$16,834,987	2,010,321
Less: Amount representing interest		251,821
Present value of net minimum lease obligations		$ 1,758,500

Rent expense for operating leases approximated $3,235,075, $3,266,289 and $2,382,000 for the three years ended June 30, 2000, 1999 and 1998, respectively.

NOTE 15 - COMMITMENTS AND CONTINGENCIES (Continued)

Litigation

On March 4, 1996, the Company filed an action against Toshiba Corporation, Toshiba America Medical Systems, Inc., Toshiba American MRI, Inc. and others alleging infringement of four of its MRI patents. In May 1998, FONAR and Toshiba amicably resolved the litigation and FONAR received a monetary payment from Toshiba. Other terms of the settlement are confidential.

In January 1998, the Company filed an action against Health South, Inc. ("Health South"), in the United States District Court of New York alleging infringement of the Company's Multi-Angle Oblique Imaging Patent (U.S. Patent No. 4,871,966). Health South filed a declaratory judgement counterclaim for non-infringement and invalidity and a third party claim against a manufacturer of certain of its scanners. The case was settled with the manufacturer in December 1999 and with Health South in June, 2000. The terms of the settlement are confidential.

On August 4, 1998, Beal Bank filed a notice of motion for summary judgement against Melville Magnetic Resonance Imaging, P.C. ("Melville Magnetic") and the Company. The motion for summary judgement seeks to recover $733,855, plus accrued interest of $221,809, for payment of a bank loan executed by Melville Magnetic and guaranteed by the Company. In April 1999, a summary judgement was granted against Melville Magnetic and the Company, as a guarantor on the loan. The court's decision is currently under appeal. Included in accrued liabilities at June 30, 1999 and 2000 is $650,000 related to the judgement.

License Agreement and Self-Insurance

The Company has license agreements with two separate companies, which require the Company to pay a royalty on the Company's future sales of certain NMR imaging apparatus. Royalty expense charged to operations for the years ended June 30, 2000, 1999 and 1998 approximated $36,000, $50,000 and $47,000, respectively.

The Company is self-insured with respect to product liability. During the fiscal years ended June 30, 2000, 1999 and 1998, no material claims arose.

NOTE 15 - COMMITMENTS AND CONTINGENCIES (Continued)

Management Contracts

In connection with the acquisition of Affordable Diagnostics, Inc. HMCA entered into a management agreement with the former President of Affordable effective July 1, 1997. The agreement provides for a base fee of $52,000 per year for a 5-year period, commencing July 1, 1997, and 60,000 shares of HMCA's common stock valued at $60,000, as signing bonuses. In addition, an additional 240,000 shares of HMCA's common stock are issuable to the consultant provided certain financial hurdles are met over the 5-year term of the agreement. As of June 30, 2000, no additional shares have been earned under the agreement.

NOTE 15 - COMMITMENTS AND CONTINGENCIES (Continued)

Employment Agreements

On March 20, 1998, a consolidated affiliate of HMCA entered into two employment agreements with the former owners of A&A. Each agreement provides for a base annual salary of $150,000 for the first five years and $315,000 per annum for each year thereafter and shall be increased by 5% per annum up to a minimum base salary of $500,000 per annum. Additionally, each agreement provides for a bonus commencing in the sixth year of the contract, contingent upon meeting certain thresholds of net income. The employment agreements expire fifteen years from March 20, 1998.

On August 20, 1998, a wholly-owned subsidiary of HMCA entered into two employment agreements with the former owners of Dynamic. Each agreement provides for base compensation of $150,000 during the first year with annual cost of living increases for the vefirst five years. Each agreement also provides for an increase in base compensation of $100,000 per annum commencing in the sixth year. In addition, the agreements provide for bonus compensation contingent upon pretax earnings of Dynamic. The employment agreements expire ten years from August 20, 1998.

Minimum annual payments, excluding bonuses, incentives and cost of living increases under these contracts are as follows:

Years Ended June 30,	
2001	$ 652,000
2002	652,000
2003	682,500
2004	1,096,666
2005	1,190,000
Thereafter	3,833,334

$8,106,500
==========

Employee Benefit Plans

The Company has a non-contributory 401(k) plan (the "Plan"). The Plan covers all non-union employees who are at least 21 years of age with no minimum service requirements. There were no employer contributions to the Plan for the years ended June 30, 2000, 1999 and 1998.

The shareholders of the Company approved the 2000 employee stock purchase plan ("ESPP") at the Company's annual shareholders' meeting in April, 2000. The ESSP provides for eligible employees to acquire common stock of the Company at a discount not to exceed 15%. The plan has not been put into effect as of June 30, 2000.

NOTE 16 - OTHER INCOME (EXPENSE) AND SUPPLEMENTARY PROFIT AND LOSS DATA

Other income consists of:

	For the Years Ended June 30,		
	2000	1999	1998
Royalties	$ 920,000	$ 42,000	$ 714,000
Other income (expense)	93,425	32,950	(61,382)
Gain on sale of subsidiary	1,021,950	-	-
Gain on settlement of various legal disputes and other claims	3,540,000	1,618,169	7,957,417
Litigation provision	-	(650,000)	-
	$ 5,575,375	$1,043,119	$8,610,035

In October 1999, the Company sold the stock of its subsidiary, Medical SNI. Medical SNI, based in Haifa, Israel, designs and develops products for the medical imaging and archiving industry. The effects of the sale include the removal of liabilities of approximately $1 million and a pretax gain of $1,021,950. The Company has a non-exclusive, perpetual, royalty-free worldwide license to use and sublicense the then existing technology.

Advertising expense approximated $2,140,000, $2,191,000 and $651,000 for the years ended June 30, 2000, 1999 and 1998, respectively. Maintenance and repair expenses totalled approximately $758,000, $491,000 and $224,000 for the years ended June 30, 2000, 1999 and 1998, respectively. Royalty expenses approximated $36,000, $49,000 and $47,000 for the years ended June 30, 2000, 1999 and 1998, respectively. Amortization of intangible assets was approximately $1,433,000, $1,518,000 and $674,000 for the years ended June 30, 2000, 1999 and 1998, respectively.

NOTE 17 - SUPPLEMENTAL CASH FLOW INFORMATION

During the years ended June 30, 2000, 1999 and 1998, the Company paid

$1,596,931, $1,768,481 and $343,418 for interest, respectively. During the years ended June 30, 2000, 1999 and 1998, the Company paid $20,144, $201,388 and $1,202,449 for income taxes, respectively.

During the years ended June 30, 1999 and 1998, the Company acquired the assets and assumed the liabilities of various entities. The transactions had the following non-cash impact on the balance sheets:

	1999	1998
Accounts receivable	$1,900,000	$600,000
Equipment	60,000	300,000
Other assets	-	-
Intangibles	9,356,067	12,221,442
Accrued liabilities	1,000,000	(1,100,000)
Notes payable to sellers	(9,388,572)	(7,073,000)
Capital lease obligation	-	-
Other liabilities	-	-
Deferred taxes payable	-	-
Equity	(275,830)	(923,442)
Net Cash Used for Acquisitions	$2,651,665	$4,025,000

Non-Cash Transactions

During the year ended June 30, 2000:

a) The Company issued 490,000 shares of common stock in settlement of current liabilities aggregating $742,372.

b) Property and equipment, costing $215,086, was acquired under a capital lease obligation.

c) In connection with the sale of its foreign subsidiary, the Company issued a note payable aggregating $115,000.

d) The Company issued 19,332 shares of its common stock, valued at $61,753, in connection with the repayment of long-term debt incurred with the acquisition of Central.

NOTE 17 - SUPPLEMENTAL CASH FLOW INFORMATION (Continued)

Non-Cash Transactions (Continued)

During the year ended June 30, 1999:

a) The Company issued 463,161 shares of common stock in settlement of current liabilities aggregating $664,656.

b) Property and equipment costing $741,663 was acquired under a capital lease obligation.

c) The Company sold equipment to a related party costing $96,427 in consideration of a note receivable aggregating $150,000.

d) The Company converted a current liability aggregating $303,000 to long-term debt.

e) The Company issued 202,018 shares of its common stock valued at $275,830 in connection with the acquisition of Central.

f) The Company issued 202,018 shares of its common stock valued at $275,837, pursuant to consulting contracts with the former shareholders of Central.

During the year ended June 30, 1998:

a) The Company issued 236,345 shares of its common stock in settlement of current liabilities aggregating $632,386.

b) The Company issued 576,000 shares of its common stock valued at $923,442 as additional contingent consideration related to acquisition of Affordable Diagnostics, Inc.

c) The Company issued 385,530 shares of its common stock to employees in satisfaction of accrued liabilities incurred during the fiscal year ended June 30, 1997 aggregating $1,147,906.

d) Accrued interest aggregating $146,330 was reclassified to long-term debt pursuant to a debt restructuring agreement.

e) Equipment costing $800,000 was reclassified from Costs and Estimated Earnings in Excess of Billings on Uncompleted Contracts to Property and Equipment.

f) The Company purchased $1,391,304 of machinery and equipment under capital leases.

NOTE 18 - GOVERNMENT REGULATIONS

The healthcare industry is highly regulated by numerous laws, regulations, approvals and licensing requirements at the federal, state and local levels. Regulatory authorities have very broad discretion to interpret and enforce these laws and promulgate corresponding regulation. The Company believes that its operations under agreements pursuant to which it is currently providing services are in material compliance with these laws and regulations. However, there can be no assurance that a court or regulatory authority will not determine that the Company's operations (including arrangements with new or existing clients) violate applicable laws or regulations.

If the Company's interpretation of the relevant laws and regulations is inaccurate, the Company's business and its prospects could be materially and adversely affected. The following are among the laws and regulations that affect the Company's operations and development activities; corporate practice of medicine; fee splitting; anti-referral laws; anti-kickback laws; certificates of need, regulation of diagnostic imaging; no-fault insurance; worker's compensation; and proposed healthcare reform legislation.

NOTE 19 - ADVANCES AND NOTES TO RELATED PARTIES

Effective December 1, 1993, Albany Magnetic Imaging Center, P.C., a Georgia professional corporation, of which Raymond V. Damadian is the sole stockholder ("Albany Center"), purchased the scanner being utilized at its site from the Company for a purchase price of $1,128,844. In June of 1997, the payment terms for the outstanding balance of $344,766 were restructured to provide for 60 equal monthly payments (including interest at the rate of 10% per annum) of $7,325 each, commencing July 1997. The balance due under this note as of June 30, 2000 was $158,745.

Effective December 1, 1993, RVDC assigned its purchase option under the lease to Daytona Beach Magnetic Resonance Imaging, P.A., a Florida professional association of which Raymond V. Damadian is the sole shareholder, Director and President ("Daytona Beach Center") and the Daytona Beach Center exercised the option and purchased the scanner from the Company for a purchase price of $1,416,717.

In May 1999, the payment terms for the outstanding balance of $1,001,507 were restructured to provide for 84 equal monthly payments (including interest at the rate of 10% per annum) of $16,626.20 each, commencing May 1999. The balance due under this note as of June 30, 2000 was $924,451.

During 1994, Melville MRI, P.C. ("Melville Center"), a New York professional corporation of which Raymond V. Damadian is the sole shareholder, Director and President, purchased an MRI scanner from the Company for a purchase price of $1,011,431. Of the purchase price, $900,000 is to be paid by the assumption and payment of the Company's indebtedness to the lender secured by the scanner pursuant to a note bearing interest at 14% per annum and providing for 60 monthly payments of $20,700 each. The remaining $111,431 of the purchase price was to be paid concurrently with the payments to the lender. The payment terms for the principal balance, plus accrued interest (in the aggregate amount of

$139,290), were restructured to provide for 60 equal monthly payments (including interest at the rate of 10% per annum) of $2,959.50 each, commencing July 1998. The balance due under this note as of June 30, 2000 was $91,719.

NOTE 19 - ADVANCES AND NOTES TO RELATED PARTIES (Continued)

During 1994, Deerfield Magnetic Resonance Imaging P.A. ("Deerfield Center"), a Florida professional association, of which Raymond V. Damadian is the sole shareholder, Director and President, purchased an MRI scanner from the Company for a purchase price of $962,185. The Deerfield Center paid the remaining balance due under the note during fiscal 1998.

Canarsie MRI Associates ("Canarsie"), a joint venture partnership of which MRI Specialties, Inc. ("Specialties") is an owner, is party to a service agreement for its scanner with the Company at an annual fee of $70,000. Timothy Damadian, the Treasurer of FONAR and President of HMCA, is the sole stockholder, director and president of Specialties.

Pompano MRI Associates ("Pompano"), a joint venture partnership of which Guardian MRI, Inc. ("Guardian") is an owner, is a party to a service agreement for its scanner with the Company at an annual fee of $70,000. Timothy Damadian, the Treasurer of FONAR and President of HMCA, is a stockholder, Director and President of Pompano.

As at June 30, 2000 and 1999, the aggregate indebtedness of Specialties and Canarsie to the Company was $12,629 and $25,720, respectively, and the aggregate indebtedness of Guardian and Pompano to the Company was $17,667 and $29,682, respectively.

NOTE 20 - SEGMENT AND RELATED INFORMATION

Effective July 1, 1998, the Company adopted the provisions of SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information". SFAS No. 131 establishes standards for the way public enterprises report information about operating segments in annual financial statements and requires those enterprises to report selected information about operating segments in interim financial reports issued to stockholders. The information for 1998 has been restated from the prior year's presentation in order to conform to the 1999 presentation.

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. All intersegment sales are market-based. The Company evaluates performance based on income or loss from operations.

NOTE 20 - SEGMENT AND RELATED INFORMATION (Continued)

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

	Medical Equipment	Physician Management Services	Totals
Fiscal 2000:			

Net sales from external customers	$ 5,051,064	$ 34,022,733	$ 39,073,797
Intersegment net sales	$ 1,227,075	$ -	$ 1,227,075
Operating (loss) income	$(18,904,534)	$ 2,477,962	$(16,426,572)
Depreciation and amortization	$ 1,817,547	$ 2,638,529	$ 4,456,076
Compensatory element of stock issuances	$ 926,421	$ 1,003,285	$ 1,929,706
Total identifiable assets	$ 43,045,691	$ 41,553,346	$ 84,599,037
Capital expenditures	$ 2,081,551	$ 940,795	$ 3,022,346

Fiscal 1999:

Net sales from external customers	$ 5,681,955	$ 31,263,089	$ 36,945,044
Intersegment net sales	$ 845,834	-	$ 845,834
Operating (loss) income	$(18,730,341)	$ 3,122,286	$(15,608,055)
Depreciation and amortization	$ 1,847,216	$ 2,810,603	$ 4,657,819
Compensatory element of stock issuances	$ 190,851	$ 84,391	$ 275,242
Total identifiable assets	$ 56,310,557	$ 41,337,611	$ 97,648,168
Capital expenditures	$ 4,180,447	$ 1,299,392	$ 5,479,839

Fiscal 1998:

Net sales from external customers	$ 6,458,363	$ 21,095,994	$ 27,554,357
Intersegment net sales	$ 1,349,186	-	$ 1,349,186
Operating (loss) income	$(20,292,707)	$ 2,698,314	$(17,594,393)
Depreciation and amortization	$ 1,415,783	$ 1,501,820	$ 2,917,603
Compensatory element of stock issuances	$ 12,362	$ 1,096,000	$ 1,108,362
Total identifiable assets	$ 79,235,791	$ 29,211,989	$108,447,780
Capital expenditures	$ 1,889,450	$ 2,287,398	$ 4,176,848

Export Sales

The Company's areas of operations are principally in the United States. The Company had export sales of medical equipment amounting to 2.8%, 3.4% and 4.6% of consolidated net revenues for the years ended June 30, 2000, 1999 and 1998, respectively.

NOTE 20 - SEGMENT AND RELATED INFORMATION (Continued)

Export Sales (Continued)

The sales were made principally to the following locations:

	2000	1999	1998
Korea	-	-	1.8%
Spain	2.8%	3.2%	-
Saudi Arabia	-	.2	2.8
	2.8%	3.4%	4.6%

The Company does not have any material assets outside of the United States.

Concentration of Credit Risk

Net revenues from related parties accounted for approximately 92%, 85% and 77% of the consolidated net revenues for the years ended June 30, 2000, 1999 and 1998, respectively. Accounts receivable due from related parties approximated 83% and 88% of the consolidated accounts receivable as of June 30, 2000 and 1999, respectively.(NOTE 5)

NOTE 21 - PROFORMA INFORMATION (UNAUDITED)

The Company's consolidated financial statements for the year ended June 30, 1998 do not include the results of operations of A&A Services, Inc. for the period July 1, 1997 through March 20, 1998 and Dynamic for the year ended June 30, 1998, and the consolidated financial statements for the year ended June 30, 1999 do not include the results of operations of Dynamic for the period July 1, 1998 through August 20, 1998. The following summarizes the unaudited proforma results of operations for the years ended June 30, 1999 and 1998, assuming the foregoing acquisition had occurred on June 30, 1999 and 1998 (in thousands, except per share data):

	1999 (Unaudited)	1998 (Unaudited)
Revenue, net	$ 37,624	$ 36,747
Loss from operations	$ (15,447)	$ (16,367)
Loss before income taxes	$ (14,344)	$ (4,777)
Basic and diluted net loss per share	$(.22)	$(.08)

FONAR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2000

NOTE 22 - SUBSEQUENT EVENTS

The Company received approximately $9 million during August of 2000 in connection with the licensing of its technology.

During September 2000, the Company entered into a sales-type lease with a related party for an MRI scanner totalling $935,000. The lease is payable in 60 monthly payments of $12,356 each, plus at the end of the 60-month lease, the lessee can elect to continue the lease for an additional five years, at a monthly payment of $12,356, including interest at 10% per annum, or pay a lump sum of $581,544.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

Directors serve from the date of their election until the next annual meeting of stockholders and until their successors are elected and qualify. With the exception of Dr. Raymond V. Damadian, who does not receive any fees for serving as a director, each director receives $20,000 per annum for his or her service as a director.
Officers serve at the discretion of the Board of Directors.

The officers and directors of the Company are set forth below:

Raymond V. Damadian, M.D.	64	President, Chairman of the Board and a Director
Timothy R. Damadian	36	Treasurer of FONAR; President of HMCA
David B. Terry	53	Vice President and Secretary
Claudette J.V. Chan	63	Director
Robert J. Janoff	73	Director

Charles N. O'Data 64 Director

Raymond V. Damadian, M.D. has been the Chairman of the Board and President of FONAR since its inception. Dr. Damadian was employed by the State University of New York, Downstate Medical Center, New York, as an Associate Professor of Biophysics from 1967 until September 1979. Dr. Damadian received an M.D. degree in 1960 from Albert Einstein College of Medicine, New York, and a B.S. degree in mathematics from the University of Wisconsin in 1956. In addition, Dr. Damadian conducted post-graduate work at Harvard University, where he studied extensively in the fields of physics, mathematics and electronics. Dr. Damadian is the author of numerous articles and books on the nuclear magnetic resonance effect in human tissue, which is the theoretical basis for the FONAR MRI scanners. Dr. Damadian is a 1988 recipient of the National Medal of Technology and in 1989 was inducted into the National Inventors Hall of Fame, for his contributions in conceiving and developing the application of magnetic resonance technology to medical applications including whole body scanning and diagnostic imaging. Dr. Damadian is the director of HMCA.

Timothy R. Damadian has been Treasurer of FONAR since December 1998 and President of HMCA since its formation in March 1997. Mr. Damadian served as a field service technician for FONAR, after graduating from Suburban Technical School in 1982, where he studied digital computer technology. Mr. Damadian became Director of Manufacturing in October 1989 and was promoted to Vice President of Operations of FONAR in July 1992, in which position he served until December, 1998. Timothy Damadian is the son of Raymond V. Damadian and nephew of David Terry and Claudette Chan.

David B. Terry is the Vice President of Administration and Secretary of the Company. Mr. Terry has been serving as Vice President since December 1998 and as Secretary since May, 1990. Previously, he served as Treasurer from May 1990 to December, 1998, as Secretary from July 1978 through June 1987 and as Treasurer from August 1981 through June 1987. From July 1978 through June 1987, he was also a Director of the Company. Between July 1987 and January 1990, Mr. Terry was a co-owner and actively engaged in the business of Carman-Terry Realty, a real estate brokerage firm. In January 1990, Mr. Terry resumed his employment with the Company. Mr. Terry is the brother-in-law of Raymond V. Damadian and uncle of Timothy R. Damadian.

Claudette J.V. Chan has been a Director of FONAR since October 1987. Mrs. Chan has been employed since 1992 by Raymond V. Damadian, M.D. MR Scanning Centers Management Company as "site inspector," in which capacity she is responsible for supervising and implementing standard procedures and policies for MRI scanning centers. From 1989 to 1994 Mrs. Chan was employed by St. Matthew's and St. Timothy's Neighborhood Center, Inc., as the director of volunteers in the "Meals on Wheels" program, a program which cares for the elderly. In approximately 1983, Mrs. Chan formed the Claudette Penot Collection, a retail mail-order business specializing in women's apparel and gifts, of which she was the President until she stopped operating the business in approximately 1989. Mrs. Chan practiced and taught in the field of nursing until 1973, when her son was born. She received a bachelor of science degree in nursing from Cornell University in 1960. Mrs. Chan is the sister of Raymond V. Damadian and aunt of Timothy R. Damadian.

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

Charles N. O'Data has been a Director of FONAR since February, 1998. From 1968 to 1997, Mr. O'Data was the Vice President for Development for Geneva College, a liberal arts college located in western Pennsylvania. In that capacity, he acted as the College's chief investment officer. His responsibilities included management of the College's endowment fund and fund raising. In July 1997, Mr. O'Data retired from Geneva College after 36 years of service to assume a position of National Sales Executive for SC Johnson Company's Professional Markets Group (a unit of SC Johnson Wax), and specialized in healthcare and education sales, a position he held until the spring of 1999. Mr. O'Data acts an independent financial consultant to various entities, including Pittsburgh National Bank. Mr. O'Data served on the board of the Medical Center, Beaver, a 500 bed acute care facility, for 22 years, three as the Board Chair. He founded The Beaver County Foundation, a Community Foundation, in 1992, and serves as its President. Mr. O'Data is a graduate of Geneva College, where he received a B.S. degree in Economics in 1958. Mr. O'Data is listed as a finance associate in the Middle States Association, Commission on Higher Education. The commission is the formal accrediting body for higher education in the eastern region of the country. In this capacity he valuates the financial aspects of educational organizations.

ITEM 11. EXECUTIVE COMPENSATION.

With the exception of the Chief Executive Officer, the compensation of the Company's executive officers is based on a combination of salary and bonuses based on performance. The Chief Executive Officer's compensation consists only of a salary which has remained constant for more than the past three fiscal years.

The Board of Directors does not have a compensation Committee: Dr. Raymond V. Damadian, President, Chief Executive Officer and Chairman of the Board, is the only executive officer who is a member of the Board of Directors. Dr. Damadian participates in the determination of executive compensation for the Company's officers.

The Board of Directors has established an audit committee. The members of the committee are Raymond V. Damadian, Robert J. Janoff and Charles N. O'Data.

There is set forth in the following Summary Compensation Table the compensation provided by the Company during fiscal 2000 to its Chief Executive Officer. There is set forth in the following Option Grant Table and Option Exercise Table any stock options granted and exercised by Dr. Damadian during fiscal 2000.

I. SUMMARY COMPENSATION TABLE

<TABLE>
<CAPTION>

	Annual Compensation				Long Term Compensation: Awards		Long Term Compensation: Payouts	
(a) Name and Principal Position 2	(b) Year	(c) Salary ($)	(d) Bonus ($)	(e) Other Annual Compen-sation ($)	(f) Restricted Stock Award(s) ($)	(g) Options SARs (#)	(h) LTIP Payouts ($)	(i) All Other Compen-sation ($)
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Raymond V.	2000	$86,799.97	-	-	-	-	-	-
Damadian,	1999	$86,799.96	-	-	-	-	-	-
President	1998	$84,218.10	-	-	-	-	-	-
& CEO								

</TABLE>

II. OPTION/SAR GRANTS IN LAST FISCAL YEAR

<TABLE>
<CAPTION>

Individual Grants					Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term		Alternative to (f) and (g): Grant Date Value
(a) Name	(b) Options/ SARs Granted (#)	(c) % of Total Options/ SARs Granted to Employees in Fiscal Year	(d) Excercise or Base Price ($/Sh)	(e) Expiration Date	(f) 5% ($)	(g) 10% ($)	(h) Grant Date Present Value $
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Raymond V. Damadian, President & CEO	0	-	-	-	-	-	-

</TABLE>

III. OPTION/SAR EXERCISES AND YEAR-END VALUE TABLE

Aggregated Options/SAR Exercises in Last Fiscal Year, and FY-End Option/Sar Value

(a)	(b)	(c)	(d)	(e)

Name	Shares Acquired on Exercise (#)	Value Realized ($)	Number of Unexercised Options/SARs at FY-End (#) Exercisable/ Unexercisable	Value of Unexercised In-the-Money Options/SARs at FY-End ($) Exercisable/ Unexercisable
Raymond V. Damadian, President and CEO	0	-	0	-

EMPLOYEE COMPENSATION PLANS

FONAR's 1993 Incentive Stock Option Plan, adopted on March 26, 1993, is intended to qualify as an incentive stock option plan under Section 422A of the Internal Revenue Code of 1954, as amended. The 1993 Incentive Stock Option Plan permits the issuance of stock options covering an aggregate of 1,500,000 shares of Common Stock of FONAR. The options have an exercise price equal to the fair market value of the underlying stock on the date the option is granted, are nontransferable, are exercisable for a period not exceeding ten years and expire upon the voluntary termination of employment. The 1993 Stock Option Plan will terminate on March 25, 2003. As of June 30, 2000, options to purchase 311,830 shares of Common Stock were available for future grant under the plan.

FONAR's 1997 Nonstatutory Stock Option Plan, adopted on May 9, 1997, permits the issuance of stock options covering an aggregate of 5,000,000 shares of Common Stock of FONAR. The options may be issued at such prices and upon such terms and conditions as are determined by FONAR. The 1997 Nonstatutory Stock Option Plan will terminate on May 8, 2007. As of June 30, 2000, options to purchase 4,572,400 shares of Common Stock of FONAR were available for future grant.

FONAR's 1997 Stock Bonus Plan, adopted on May 9, 1997, permits FONAR to issue an aggregate of 5,000,000 shares of Common Stock of FONAR as a bonus or compensation. FONAR selects the persons to whom bonus stock will be issued, the number of shares to be awarded and such other terms and conditions as it deems advisable. The 1997 Stock Bonus Plan will terminate on May 8, 2007. As of June 30, 2000, 2,013,344 shares of Common Stock of FONAR were available for future grant.

HMCA's 1997 Incentive Stock Option Plan, adopted on March 10, 1997, is intended to qualify as an incentive stock option plan under Section 422A of the Internal Revenue Code of 1954, as amended. The 1997 Incentive Stock Option Plan permits the issuance of stock options covering an aggregate of 2,000,000 shares of Common Stock of HMCA. The options have an exercise price equal to the fair market value of the underlying stock on the date the option is granted, are nontransferable, are exercisable for a period not exceeding ten years and expire upon the voluntary termination of employment. The exercisability of the options granted to date is contingent upon the successful completion by HMCA of a public offering of its securities or the recognition by HMCA of at least $10 million in revenues for at least two consecutive fiscal quarters. The 1997 Stock Option Plan will terminate on March 9, 2007. As of June 30, 1999, options to purchase 400,000 shares of HMCA Common Stock were available for future grant under the plan.

HMCA's 1998 Incentive Stock Option Plan, adopted on December 16, 1998, is intended to qualify as an incentive stock option plan under Section 422A of the Internal Revenue Code of 1954, as amended. The 1998 Incentive Stock Option Plan permits the issuance of stock options covering an aggregate of 2,000,000 shares of Common Stock of HMCA. The options have an exercise price equal to the fair market value of the underlying stock on the date the option is granted, are nontransferable, are exercisable for a period not exceeding ten years and expire upon the voluntary termination of employment. The excessability of the options granted to date is contingent upon the successful completion by HMCA of a public offering of its securities. The 1998 Stock Option Plan will terminate on December 15, 2008. As of June 30, 1999, options to purchase 1,330,000 shares of HMCA Common Stock were available for future grant under the plan.

HMCA's 1998 Nonstatutory Stock Option Plan, adopted on December 16, 1998, permits the issuance of stock options covering an aggregate of 500,000 shares of Common Stock of HMCA. The options may be issued at such prices and upon such terms and conditions as are determined by HMCA. The exercisability of the options granted to date is contingent upon the successful completion by HMCA of a public offering of its securities. The 1998 Nonstatutory Stock Option Plan will terminate on December 15, 2008. As of June 30, 1999, options to purchase 100,000 shares of Common Stock were available for future grant.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The following table sets forth the number and percentage of shares of the Company's securities held by each director, by each person known by the Company to own in excess of five percent of the Company's voting securities and by all officers and directors as a group as of September 6, 2000.

Name and Address of Beneficial Owner (1)	Shares Beneficially Owned	Percent of Class
Raymond V. Damadian, M.D. c/o FONAR Corporation Melville, New York Director, President CEO, 5% + Stockholder		
Common Stock	2,488,274	4.39%
Class C Stock	9,561,174	99.98%
Class A Preferred	477,328	6.09%
Claudette Chan Director		
Common Stock	2,648	*
Class A Preferred	800	*
Robert J. Janoff Director		
Common Stock	50,000	*
Class A Preferred	1,999	*
Charles N. O'Data Director		
Common Stock	700	*
All Officers and Director s as a Group (6 persons) (2)		
Common Stock	2,522,469	4.45%
Class C Stock	9,561,174	99.98%
Class A Preferred	492,744	6.29%

* Less than one percent

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

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

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

Background.

On April 7, 1989, at a time when the Company lacked both the financing and working capital to establish its own centers, Donna Damadian, the wife of Raymond V. Damadian, M.D., Chairman and President of the Company, purchased from FONAR a scanner for a purchase price of $1,508,000 (the price paid by FONAR's customers for like equipment). $1.2 million was paid in cash, providing a much needed cash infusion for the Company, and the balance was paid over time with interest pursuant to a promissory note of even date. The scanner was leased to Macon Magnetic Resonance Imaging, P.C., a Georgia professional corporation wholly-owned by, and of which Dr. Damadian is, the President. Thereafter, between 1990 and 1996, Raymond V. Damadian, M.D. MRI Scanning Centers Management Company, a Delaware corporation of which Dr. Damadian was the sole stockholder, director and President ("RVDC"), purchased and leased scanners from FONAR to establish a network of professional corporations operating MRI scanning centers ("Centers"), including the Macon Center, in New York, Florida, Georgia and other locations. Dr. Damadian was the owner, director and President of each of these professional corporations. RVDC provided the necessary management and the scanners to the Centers, although in certain situations, a Center would acquire the scanner directly from FONAR.

ACQUISITION OF RVDC.

Effective June 30, 1997, FONAR's wholly-owned subsidiary, Health Management Corporation of America ("HMCA"), formerly known as U.S. Health Management Corporation, acquired RVDC by purchasing all of the issued and outstanding shares of RVDC from Dr. Damadian for 10,000 shares of the Common Stock of FONAR. The transactions can be rescinded by Dr. Damadian, however, in the event of a change of control in FONAR or the bankruptcy of FONAR. There is no time limit on the right to rescind. In connection with the transaction, FONAR granted RVDC a nonexclusive royalty free license to FONAR's patents and software. These licenses may be terminated by FONAR in the event of the bankruptcy of RVDC or a change in control of RVDC.

In connection with and immediately prior to the sale of RVDC to HMCA, certain leases and sales of scanners to RVDC were terminated. The scanners were then leased directly to the Centers at which they were installed pursuant to new scanner leases between HMCA and the Centers.

NEW AGREEMENTS WITH HMCA.

Effective July 1, 1997, immediately following the effective date of the acquisition of RVDC by HMCA, all previous management arrangements between RVDC and the Centers were terminated and new management agreements were entered into by the Centers and HMCA ("Management Agreements").

Pursuant to the Management Agreements, HMCA is providing comprehensive management and administrative services and office facilities, including billing and collection of accounts, payroll and accounts payable processing, supplies and utilities to the Centers. Under the Management Agreements, HMCA provides service through FONAR for the scanners at the Centers, eliminating the need for the Centers to have separate service agreements for their scanners. In total, 15 of the Centers previously managed by RVDC and three additional Centers opened after the acquisition, have Management Agreements with HMCA.

With respect to the scanners at 9 of the 18 Centers, the lease or sales agreement between RVDC (or the Center in some cases) and FONAR were terminated. In substitution for the previous arrangements, HMCA, effective as of July 1, 1997, entered into new scanner leases ("Scanner Leases") with these Centers pursuant to which the scanners are provided to the Centers.

The fees to HMCA under both the Management Agreements and the Scanner Leases are on a per scan basis.

During the fiscal year ended June 30, 2000 the net revenues received by HMCA from the Centers owned by Dr. Damadian were approximately $17.2 million.

Effective December 1, 1993, one of the Centers, Albany Magnetic Resonance Imaging, P.C. (the "Albany Center"), a Georgia professional corporation of which Raymond V. Damadian is the sole shareholder, director and President, purchased the scanner being utilized at its site from the Company for a purchase price of $1,128,844, which in Fonar's opinion represented a fair market price based on sales of like equipment by Fonar to its customers. Of the purchase price, $574,077 was paid by the assumption and payment of the Company's indebtedness to the lender secured by the scanner. Such indebtedness to the lender was retired pursuant to a new equipment finance lease between the lender and the Albany Center, guaranteed by the Company, providing for 18 monthly payments of $35,000 each. Following payment of the lease, the remaining $554,767 of the purchase price due to the Company was required to be paid pursuant to a promissory note, with interest at 10% per annum, over an 18 month term (17 payments of $35,000 each and one final payment of $2,454.08). In June, 1997, the payment terms for the outstanding balance of $344,766 were restructured to provide for 60 equal monthly payments (including interest at the rate of 10% per annum) of $7,325.27 each commencing July, 1997.

Effective December 1, 1993, Daytona Beach Magnetic Resonance Imaging, P.A. (the "Daytona Beach Center"), a Florida professional association of which Raymond V. Damadian is the sole shareholder, director and President, purchased the scanner being utilized at its site from the Company for a purchase price of $1,416,717, which in Fonar's opinion represented a fair market price based on sales of like equipment by Fonar to its customers. Of the purchase price, $328,044 was paid by the assumption and payment of the Company's indebtedness to the lender secured by the scanner. Such indebtedness to the lender was retired pursuant to a new equipment finance lease between the lender and the Daytona Beach Center, guaranteed by the Company, providing for 18 monthly payments of $20,000 each. The remaining $1,088,673 of the purchase price due to the Company was required to be paid pursuant to a promissory note, with interest at 10% per annum. In May, 1999, the payment terms for the outstanding balance of $1,001,507 were restructured to provide for 84 equal monthly payments (including interest at the rate of 10% per annum) of $16,626.20 each commencing May 1999.

On June 30, 1994, Melville MRI, P.C. (the "Melville Center"), a New York professional corporation of which Raymond V. Damadian is the sole shareholder, director and President, purchased the scanner being utilized at its site from the Company for a purchase price of $1,011,431.12, which in Fonar's opinion represented a fair market price based on sales of like equipment by Fonar to its customers. Of the purchase price, $900,000 is to be paid by the assumption and payment of the Company's indebtedness to the lender secured by the scanner pursuant to a note bearing interest at 14% per annum and providing for 60 monthly payments of $20,700 each. The remaining $111,431.12 of the purchase price was to be paid concurrently with the payments to the lender. The payment terms for the principal balance, plus accrued interest (in the aggregate amount of $139,290) were restructured to provide for 60 equal monthly payments (including interest at the rate of 10% per annum) of $2,959.50 each commencing July, 1998.

ACQUISITION OF THE AFFORDABLE COMPANIES.

Effective June 30, 1997, HMCA acquired a group of several interrelated corporations, limited liability companies and a partnership engaged in managing three diagnostic imaging centers and one multi-specialty practice in New York State (the "Affordable Companies") pursuant to a series of transactions concluding with a merger between a wholly-owned subsidiary of HMCA and Affordable Diagnostics, Inc. Concurrently with the acquisition, Raymond V. Damadian purchased three New York professional corporations to which the Affordable Companies were providing their services under several agreements. Dr. Damadian is the sole stockholder, director and President of these professional corporations (the "Affordable Professional Corporations"). During the fiscal year ended June 30, 2000, the net revenues from the Affordable Professional Corporations were approximately $2.8 million.

ACQUISITION OF A & A SERVICES.

Effective March 20, 1998, HMCA acquired A & A Services, Inc. ("A & A Services"), an management company managing four primary care practices in Queens County, New York. Concurrently with the acquisition, Raymond V. Damadian purchased the four New York professional service corporations under contract with A & A Services (the "A & A Professional Corporations"). During the fiscal year ended June 30, 2000, the net revenues from the A & A Professional Corporations were $4.0 million.

ACQUISITION OF DYNAMIC HEALTH CARE MANAGEMENT

Effective August 20, 1998, HMCA acquired Dynamic Health Care Management, Inc. ("Dynamic"), an MSO managing three physician practices in Nassau and Suffolk Counties on Long Island, New York. Concurrently with the acquisition, Raymond V. Damadian purchased two professional service corporations under contract with Dynamic (the "Dynamic Professional Corporations"). During the fiscal year ended June 30, 2000, the net revenues from the Dynamic Professional Corporations were $7.3 million.

HMCA performs management services for Superior Medical Services, P.C. ("Superior"), a New York professional corporation of which Raymond V. Damadian is the sole stockholder, director and President. Superior conducts multi-specialty practices at locations in Yonkers, Elmont, Elmhurst and Riverdale, New York. During the fiscal year ended June 30, 2000, the net revenues from Superior were $2.6 million.

Pursuant to an agreement dated March 31, 1993, RVDC agreed to purchase the Company's general partnership interest (approximately 92% of the partnership) in a partnership owning and operating an MRI scanning center in Bensonhurst (Brooklyn), New York. Robert Janoff, a director of the Company, is a limited partner in the partnership. The partnership is also party to a service agreement with the Company. The current annual rate is $50,000 for the one year service contract from July 1, 2000 to July 30, 2001. The rate in effect during the prior year was also $50,000.

Pursuant to an agreement dated September 30, 1993, AMD sold its interests in a partnership operating an MRI scanning center in Melbourne, Florida to Melbourne Magnetic Resonance Imaging, P.A. (the "Melbourne Facility"), for a purchase price of $150,000. The purchase price is payable, with interest at 10% per annum, over a period of fifteen months commencing September 1, 1995 as follows: $13,500 per month for the first fourteen months and $1,185.60 for the fifteenth month. The Melbourne Facility is a Florida professional corporation of which Raymond V. Damadian is the sole stockholder, director and President. The partnership is presently inactive.

Pursuant to an agreement dated September 30, 1993, AMD sold to Dade County MRI, P.A. its interests in a partnership which had formerly operated an MRI scanning center in Miami, Florida. The purchase price of $100,000 is payable, with interest at 10% per annum,in sixty (60) equal consecutive monthly installments of principal and interest (including interest accrued from September 30, 1993), commencing 90 days after the scanner is placed in service. The partnership is presently inactive. Dade County MRI, P.A. is a Florida professional association of which Raymond V. Damadian is the sole stockholder, director and President.

Pursuant to a sales agreement dated April 1, 1996, RVDC agreed to purchase an MRI scanner with certain upgrades from the Company which RVDC then contributed to Orlando MRI Associates, Limited Partnership (the "Orlando Partnership"), a limited partnership. The Orlando Partnership is utilizing the scanner at a site located in Orlando, Florida. The sales agreement provides for a purchase price of $400,000 payable in installments as follows: (1) $40,000 down payment within thirty (30) days of execution and (2) $360,000 in 84 monthly installments of $5,611.04 each (inclusive of interest at 8% per annum) pursuant to a promissory note executed by RVDC upon acceptance of the scanner. The Orlando Partnership is party to a service agreement for its scanner with the Company at an annual fee of $50,000 for the period from April 8, 2000 through April 7, 2001. The price in effect for the prior year from April 8, 1999 through April 7, 2000 was also $50,000. Timothy Damadian, the Treasurer of FONAR and President of HMCA, is a limited partner in Orlando.

Pursuant to an agreement dated March 1, 1999, Dublin Magnetic Resonance

Imaging, P.C., ("Dublin"), a Georgia professional corporation which Raymond V. Damadian is the sole stockholder, director and President, agreed to lease a used Fonar Beta 3000M Mobile MRI Scanner from the Company at a monthly rental of $4,840.08 commencing on September 1, 1999 and continuing for thirty-six (36) months. At the conclusion of the lease period Dublin will have the option to purchase the scanner for a price of $1.00.

Pursuant to an agreement dated December 1, 1999, Damadian MRI in Garden City, P.C. ("Garden City") a New York professional corporation of which Raymond V. Damadian is the sole stockholder, director and President, agreed to lease a Fonar QUAD 12000 MRI Scanner from the Company for a term of five years at a monthly rental of $12,356.09. Upon the conclusion of the five year term, Garden City may elect to purchase the scanner for $581,544.42 or extend the lease for an additional five year period at the same monthly rental. If the lease term is extended, then Garden City will have the option to purchase the scanner at the end of the second five year period for a purchase price of $1.00. The term of the lease commenced on June 12, 2000 upon acceptance of the scanner. Payments are due on the twelfth of the month commencing June 12, 2000.

Pursuant to an agreement dated February 1, 2000, Deerfield Magnetic Resonance Imaging, P.A. ("Deerfield"), a Florida professional association of which Raymond V. Damadian is the sole stockholder, director and President, agreed to lease a Fonar QUAD 12000 MRI Scanner from the Company for a term of five years at a monthly rental of $12,356.09. Upon the conclusion of the five year term, Deerfield may elect to purchase the scanner for $581,544.42 or extend the lease for an additional five year period at the same monthly rental. If the lease term is extended, then Deerfield will have the option to purchase the scanner at the end of the second five year period for a purchase price of $1.00. The term of the lease commenced on July 18, 2000 upon the acceptance of the scanner. Lease payments are due on the first of the month, commencing August 1, 2000.

Canarsie MRI Associates ("Canarsie"), a joint venture partnership of which MRI Specialties, Inc. ("Specialties") is an owner, is party to a service agreement for its scanner with the Company at an annual fee of $70,000 for the period from September 1, 2000 through August 31, 2001. The price in effect during the prior year from September 1, 1999 to August 31, 2000 was also $70,000. Timothy Damadian, the Treasurer of FONAR and President of HMCA, is the sole stockholder, director and President of Specialties.

Pompano MRI Associates ("Pompano"), a joint venture partnership of which Guardian MRI, Inc. ("Guardian") is an owner, is party to a service agreement for its scanner with the Company at an annual fee of $70,000 for the period from October 1, 1999 through September 30, 2000. The price in effect during the prior year from October 1, 1998 through September 30, 1999 was also $70,000. Timothy Damadian, the Treasurer of FONAR and President of HMCA, is a stockholder, director and officer of Guardian.

As at June 30, 2000, the indebtedness of Canarsie to the Company was $22,476 and the aggregate indebtedness of Pompano to the Company was $18,550.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.

a) FINANCIAL STATEMENTS AND SCHEDULES

The following consolidated financial statements are included in Part II, Item 8.

Report of Independent Certified Public Accountants.

Consolidated Balance Sheets as at June 30, 2000 and 1999.

Consolidated Statements of Operations for the Three Years Ended June 30, 2000, 1999 and 1998.

Consolidated Statements of Stockholders' Equity for the Three Years Ended June 30, 2000, 1999 and 1998.

Consolidated Statements of Cash Flows for the Three Years Ended June 30, 2000, 1999 and 1998.

Notes to Consolidated Financial Statements.

Information required by schedules called for under Regulation S-X is either not applicable or is included in the consolidated financial statements or notes thereto.

b) REPORTS ON FORM 8-K

None.

c) EXHIBITS

3.1 Certificate of Incorporation, as amended, of the Company incorporated herein by reference to Exhibit 3.1 to the Registrant's registration statement on Form S-1,Commission File No. 33-13365.

3.2 Article Fourth of the Certificate of Incorporation, as amended, of the Company incorporated by reference to Exhibit 4.1 to the Registrant's registration statement on Form S-8, Commission File No. 33-62099.

3.3 By-Laws, as amended, of the Company incorporated herein by reference to Exhibit 3.2 to the Registrant's registration statement on Form S-1, Commission File No. 33-13365.

4.1 Specimen Common Stock Certificate incorporated herein by reference to Exhibit 4.1 to the Registrant's registration statement on Form S-1, Commission File No. 33-13365.

4.2 Specimen Class B Common Stock Certificate incorporated herein by reference to Exhibit 4.2 to the Registrant's registration statement on Form S-1, Commission File No. 33-13365.

10.1 License Agreement between FONAR and Raymond V. Damadian incorporated herein by reference to Exhibit 10 (e) to Form 10-K for the fiscal year ended June 30, 1983, Commission File No. 0-10248.

10.2 1983 Nonstatutory Stock Option Plan incorporated herein by reference to Exhibit 10 (a) to Form 10-K for the fiscal year ended June 30, 1983, Commission File No. 0-10248, and amendments thereto dated as of March 7, 1984 and dated August 22, 1984, incorporated herein by referenced to Exhibit 28 (a) to Form 10-K for the year ended June 30, 1984, Commission File No. 0-10248.

10.3 1984 Incentive Stock Option Plan incorporated herein by reference to Exhibit 28 (c) to Form 10-K for the year ended June 30, 1984, Commission File No. 0-10248.

10.4 1986 Nonstatutory Stock Option Plan incorporated herein by reference to Exhibit 10.7 to Form 10-K for the fiscal year ended June 30, 1986, Commission File No. 0-10248.

10.5 1986 Stock Bonus Plan incorporated herein by reference to Exhibit 10.8 to Form 10-K for the fiscal year ended June 30, 1986, Commission File No. 0-10248.

10.6 1986 Incentive Stock Option Plan incorporated herein by reference to Exhibit 10.9 to Form 10-K for the fiscal year ended June 30, 1986, Commission File No. 0-10248.

10.7 Lease Agreement, dated as of August 18, 1987, between FONAR and Reckson Associates incorporated herein by reference to Exhibit 10.26 to Form 10-K for the fiscal year ended June 30, 1987, Commission File No. 0-10248.

10.8 1993 Incentive Stock Option Plan incorporated herein by reference to Exhibit 28.1 to the Registrant's registration statement on Form S-8, Commission File No. 33-60154.

10.9 1993 Non-Statutory Stock Option Plan incorporated herein by reference to Exhibit 28.2 to the Registrant's registration statement on Form S-8, Commission File No. 33-60154.

10.10 1993 Stock Bonus Plan incorporated herein by reference to Exhibit 28.3 to the Registrant's registration statement on Form S-8, Commission File No. 33-60154.

10.11 1994 Non-Statutory Stock Option Plan incorporated herein by reference to Exhibit 28.1 to the Registrant's registration statement on Form S-8, Commission File No. 33-81638.

10.12 1994 Stock Bonus Plan incorporated herein by reference to Exhibit 28.2 to the Registrant's registration statement on Form S-8, Commission File No. 33-81638.

10.13 1995 Non-Statutory Stock Option Plan incorporated herein by reference to Exhibit 28.1 to the Registrant's registration statement on Form S-8, Commission File No. 33-62099.

10.14 1995 Stock Bonus Plan incorporated herein by reference to Exhibit 28.2 to the Registrant's registration statement on Form S-8, Commission File No. 33-62099.

10.15 1997 Non-Statutory Stock Option Plan incorporated herein by reference to Exhibit 28.1 to the Registrant's registration statement on Form S-8, Commission File No.: 333-27411.

10.16 1997 Stock Bonus Plan incorporated herein by reference to Exhibit 28.2 to the Registrant's registration statement on Form S-8, Commission File No: 333-27411.

10.17 Stock Purchase Agreement, dated July 31, 1997, by and between U.S. Health Management Corporation, Raymond V. Damadian, M.D. MR Scanning Centers Management Company and Raymond V. Damadian, incorporated herein by reference to Exhibit 2.1 to the Registrant's Form 8-K, July 31, 1997, commission File No: 0-10248.

10.18 Merger Agreement and Supplemental Agreement dated June 17, 1997 and Letter of Amendment dated June 27, 1997 by and among U.S. Health Management Corporation and Affordable Diagnostics Inc. et al., incorporated herein by reference to Exhibit 2.1 to the Registrant's 8-K, June 30, 1997, Commission File No: 0-10248.

10.19 Stock Purchase Agreement dated March 20, 1998 by and among Health Management Corporation of America, FONAR Corporation, Giovanni Marciano, Glenn Muraca et al., incorporated herein by reference to Exhibit 2.1 to the Registrant's 8-K, March 20, 1998, Commission File No: 0-10248.

10.20 Stock Purchase Agreement dated August 20, 1998 by and among Health Management Corporation of America, FONAR Corporation, Stuart Blumberg and Steven Jonas, incorporated herein by reference to Exhibit 2 to the Registrant's 8-K, September 3, 1998, Commission File No. 0-10248.

21. Subsidiaries of the Registrant. See Exhibits.

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the registrant has duly caused this amended report to be signed on its behalf by the undersigned, thereunto duly authorized.

FONAR CORPORATION

Dated: August 2, 2001

By: /s/ Raymond Damadian
Raymond V. Damadian, President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Raymond Damadian Raymond V. Damadian	Chairman of the Board of Directors, President and a Director (Principal Executive Officer)	August 2, 2001
/s/ Claudette J.V. Chan Claudette J.V. Chan	Director	August 2, 2001
/s/ Robert J. Janoff Robert J. Janoff	Director	August 2, 2001
/s/ Charles N. O'Data Charles N. O'Data	Director	August 2, 2001