FONAR CORP
Form 10-Q
November 08, 2018

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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

For the quarterly period ended SEPTEMBER 30, 2018

Commission file number 0-10248

FONAR CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE	11-2464137
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
110 Marcus Drive Melville, New York	11747
Address of principal executive offices)	(Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for shorter period that the registrant was required to submit such files. YES _X_ NO ___

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. YES ___ NO _X_

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ___ NO _X_

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

Class	Outstanding at November 6, 2018
Common Stock, par value $.0001	6,357,482
Class B Common Stock, par value $.0001	146
Class C Common Stock, par value $.0001	382,513
Class A Preferred Stock, par value $.0001	313,438

FONAR CORPORATION AND SUBSIDIARIES

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FONAR CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

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

(UNAUDITED)

ASSETS

	September 30, 2018	June 30, 2018 *
Current Assets:		
Cash and cash equivalents	$21,187	$19,634
Accounts receivable – net	4,169	3,814
Accounts receivable - related party	90	—
Medical receivable – net	13,709	13,351
Management and other fees receivable - net	21,973	21,863
Management and other fees receivable – related medical practices – net	6,162	5,535
Inventories	1,649	1,431
Costs and estimated earnings in excess of billings on uncompleted contracts	87	87
Prepaid expenses and other current assets	1,583	1,350
Total Current Assets	70,609	67,065
Income taxes receivable	1,200	1,200
Deferred income tax asset	21,561	22,689
Property and equipment – net	16,264	16,492
Goodwill	3,985	3,985
Other intangible assets – net	5,378	5,602
Other assets	1,243	1,278
Total Assets	$120,240	$118,311

*Condensed from audited financial statements.

See accompanying notes to condensed consolidated financial statements.

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FONAR CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

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

(UNAUDITED)

LIABILITIES AND STOCKHOLDERS' EQUITY

	September 30, 2018	June 30, 2018 *
Current Liabilities:		
Current portion of long-term debt and capital leases	$ 39	$ 39
Accounts payable	1,510	1,300
Other current liabilities	4,783	8,178
Unearned revenue on service contracts	4,381	4,192
Unearned revenue on service contracts – related party	83	—
Customer deposits	990	858
Total Current Liabilities	11,786	14,567
Long-Term Liabilities:		
Deferred income tax liability	239	239
Due to related medical practices	227	227
Long-term debt and capital leases, less current portion	298	306
Other liabilities	748	737
Total Long-Term Liabilities	1,512	1,509
Total Liabilities	13,298	16,076

*Condensed from audited financial statements.

See accompanying notes to condensed consolidated financial statements.

FONAR CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

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

(UNAUDITED)

LIABILITIES AND STOCKHOLDERS’ EQUITY (Continued)

STOCKHOLDERS' EQUITY:	September 30, 2018	June 30, 2018 *
Class A non-voting preferred stock $.0001 par value; 453 shares authorized at September 30, 2018 and June 30, 2018, 313 issued and outstanding at September 30, 2018 and June 30, 2018	$—	$—
Preferred stock $.001 par value; 567 shares authorized at September 30, 2018 and June 30, 2018, issued and outstanding – none	—	—
Common Stock $.0001 par value; 8,500 shares authorized at September 30, 2018 and June 30, 2018, 6,369 and 6,299 issued at September 30, 2018 and June 30, 2018, 6,357 and 6,288 outstanding at September 30, 2018 and June 30, 2018	1	1
Class B Common Stock (10 votes per share) $.0001 par value; 227 shares authorized at September 30, 2018 and June 30, 2018; .146 issued and outstanding at September 30, 2018 and June 30, 2018	—	—
Class C Common Stock (25 votes per share) $.0001 par value; 567 shares authorized at September 30, 2018 and June 30, 2018, 383 issued and outstanding at September 30, 2018 and June 30, 2018	—	—
Paid-in capital in excess of par value	181,086	179,132
Accumulated deficit	(76,454)	(79,773)
Notes receivable from employee stockholders	(9)	(9)
Treasury stock, at cost - 12 shares of common stock at September 30, 2018 and June 30, 2018	(675)	(675)
Total Fonar Corporation’s Stockholders’ Equity	103,949	98,676
Noncontrolling interests	2,993	3,559
Total Stockholders' Equity	106,942	102,235
Total Liabilities and Stockholders' Equity	$120,240	$118,311

*Condensed from audited financial statements.

See accompanying notes to condensed consolidated financial statements.

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FONAR CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

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

(UNAUDITED)

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,	
	2018	2017
REVENUES		
Patient fee revenue – net of contractual allowances and discounts	$5,525	$8,653
Provision for bad debts for patient fee	—	(3,750)
Patient fee revenue – net	5,525	4,903
Product sales – net	50	162
Service and repair fees – net	2,131	2,264
Service and repair fees - related parties – net	28	28
Management and other fees – net	10,684	9,771
Management and other fees - related medical practices – net	2,287	2,206
Total Revenues – Net	20,705	19,334
COSTS AND EXPENSES		
Costs related to patient fee revenue	2,575	2,479
Costs related to product sales	5	143
Costs related to service and repair fees	745	780
Costs related to service and repair fees - related parties	9	9
Costs related to management and other fees	5,756	5,558
Costs related to management and other fees – related medical practices	1,382	1,150
Research and development	437	349
Selling, general and administrative	4,259	4,081
Total Costs and Expenses	15,168	14,549
Income From Operations	5,537	4,785
Interest Expense	(25)	(43)
Investment Income	108	46
Other Expense	—	(2)
Income Before Provision for Income Taxes and Noncontrolling Interests	5,620	4,786
Provision for Income Taxes	(1,128)	(185)
Net Income	4,492	4,601
Net Income - Noncontrolling Interests	(1,174)	(882)
Net Income - Controlling Interests	$ 3,318	$ 3,719
Net Income Available to Common Stockholders	$ 3,113	$ 3,486
Net Income Available to Class A Non-Voting Preferred Stockholders	$ 153	$ 174
Net Income Available to Class C Common Stockholders	$ 52	$ 59
Basic Net Income Per Common Share Available to Common Stockholders	$ 0.49	$ 0.55
Diluted Net Income Per Common Share Available to Common Stockholders	$ 0.48	$ 0.54
Basic and Diluted Income Per Share – Class C Common	$ 0.14	$ 0.16

Weighted Average Basic Shares Outstanding – Common Stockholders	6,344	6,287
Weighted Average Diluted Shares Outstanding - Common Stockholders	6,472	6,415
Weighted Average Basic Shares Outstanding – Class C Common	383	383
Weighted Average Diluted Shares Outstanding – Class C Common	383	383

See accompanying notes to condensed consolidated financial statements.

FONAR CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

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

(UNAUDITED)

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,	
	2018	2017
Cash Flows from Operating Activities:		
Net income	$4,492	$4,601
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	922	959
Provision for bad debts	80	(164)
Deferred income tax	1,128	—
Stock issued for costs and expenses	1,955	—
(Increase) decrease in operating assets, net:		
Accounts, medical and management fee receivable(s)	(1,621)	(1,297)
Notes receivable	(12)	—
Inventories	(218)	(64)
Prepaid expenses and other current assets	(186)	65
Other assets	—	(5)
Increase (decrease) in operating liabilities, net:		
Accounts payable	210	183
Other current liabilities	(3,123)	(462)
Customer deposits	132	(51)
Other liabilities	10	(25)
Net cash provided by operating activities	3,769	3,740
Cash Flows from Investing Activities:		
Purchases of property and equipment	(449)	(665)
Cost of patents	(20)	(30)
Net cash used in investing activities	(469)	(695)
Cash Flows from Financing Activities:		
Repayment of borrowings and capital lease obligations	(7)	(50)
Additional acquisition costs	—	(58)
Distributions to noncontrolling interests	(1,740)	(1,740)
Repayment of notes receivable from employee stockholders	—	2
Net cash used in financing activities	(1,747)	(1,846)
Net Increase in Cash and Cash Equivalents	1,553	1,199

Cash and Cash Equivalents - Beginning of Period	19,634	10,140
Cash and Cash Equivalents - End of Period	$21,187	$11,339

See accompanying notes to condensed consolidated financial statements.

FONAR CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2018 and 2017

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

(UNAUDITED)

NOTE 1 – DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Description of Business

Effective July 1, 2015, the Company restructured the corporate organization of the management of diagnostic imaging centers segment of our business. The reorganization was structured to more completely integrate the operations of Health Management Corporation of America and HDM. Imperial contributed all of its assets (which were utilized in the business of Health Management Corporation of America) to HDM and received a 24.2% interest in HDM. Health Management Corporation of America retained a direct ownership interest of 45.8% in HDM, and the original investors in HDM retained a 30.0% ownership interest in the newly expanded HDM. The entire management of diagnostic imaging centers business segment is now being conducted by HDM, operating under the name “Health Management Company of America”.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended September 30, 2018, are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2019. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K filed on September 21, 2018 for the fiscal year ended June 30, 2018.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

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

Revenues

On July 1, 2018, the Company adopted the new revenue recognition accounting standard issued by the Financial Accounting Standards Board (“FASB”) and codified in the ASC as topic 606 (“ASC 606”). The revenue recognition standard in ASC 606 outlines a single comprehensive model for recognizing revenue as performance obligations, defined in a contract with a customer as goods or services transferred to the customer in exchange for consideration, are satisfied. The standard also requires expanded disclosures regarding the Company’s revenue recognition policies and significant judgments employed in the determination of revenue.

FONAR CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2018 and 2017

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

(UNAUDITED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenues (Continued)

The Company applied the modified retrospective approach to all contracts when adopting ASC 606. As a result, at the adoption of ASC 606 the majority of what was previously classified as the provision for bad debts in the statement of operations is now reflected as implicit price concessions (as defined in ASC 606) and therefore included as a reduction to net operating revenues in 2019. For changes in credit issues not assessed at the date of service, the Company will prospectively recognize those amounts in other operating expenses on the statement of operations. For periods prior to the adoption of ASC 606, the provision for bad debts has been presented consistent with the previous revenue recognition standards that required it to be presented separately as a component of net operating revenues. Additionally, upon adoption of ASC 606 the allowance for doubtful accounts of approximately $22.7 million as of July 1, 2018 was reclassified as a component of net patient accounts receivable. Other than these changes in presentation on the condensed consolidated statement of operations and condensed consolidated balance sheet, the adoption of ASC 606 did not have a material impact on the consolidated results of operations for the three months ended September 30, 2018, and the Company does not expect it to have a material impact on its consolidated results of operations for the remainder of 2019 and on a prospective basis.

Our revenues generally relate to net patient fees received from various payers and patients themselves under contracts in which our performance obligations are to provide diagnostic services to the patients. Revenues are recorded during the period our obligations to provide diagnostic services are satisfied. Our performance obligations for diagnostic services are generally satisfied over a period of less than one day. The contractual relationships with patients, in most cases, also involve a third-party payer (Medicare, Medicaid, managed care health plans and commercial insurance companies, including plans offered through the health insurance exchanges) and the transaction prices for the services provided are dependent upon the terms provided by (Medicare and Medicaid) or negotiated with (managed care health plans and commercial insurance companies) the third-party payers. The payment arrangements with third-party payers for the services we provide to the related patients typically specify payments at amounts less than our standard charges and generally provide for payments based upon predetermined rates per diagnostic services or discounted fee-for-service rates. Management continually reviews the contractual estimation process to consider and incorporate updates to laws and regulations and the frequent changes in managed care contractual terms resulting from contract renegotiations and renewals.

Earnings Per Share

Basic earnings per share (“EPS”) is computed based upon the weighted average number of shares of common stock and stock equivalents outstanding, net of common stock. In accordance with ASC topic 260-10, “Participating Securities and the Two-Class method”, the Company used the Two-Class method for calculating basic income per share and applied the if converted method in calculating diluted income per share for the three months ended September 30, 2018 and 2017.

Diluted EPS reflects the potential dilution from the exercise or conversion of all dilutive securities into common stock based on the average market price of common shares outstanding during the period. For the three months ended September 30, 2018 and 2017, diluted EPS for common shareholders includes 128 shares upon conversion of Class C Common.

FONAR CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2018 and 2017

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

(UNAUDITED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Earnings Per Share (Continued)

	Three months ended September 30, 2018			Three months ended September 30, 2017		
	Total	Common Stock	Class C Common Stock	Total	Common Stock	Class C Common Stock
Basic						
Numerator:						
Net income available to common stockholders	$3,318	$3,113	$ 52	$3,719	$3,486	$ 59
Denominator:						
Weighted average shares outstanding	6,344	6,344	383	6,287	6,287	383
Basic income per common share	$0.52	$0.49	$ 0.14	$0.59	$0.55	$ 0.16
Diluted						
Denominator:						
Weighted average shares outstanding		6,344	383		6,287	383
Convertible Class C Stock		128	—		128	—
Total Denominator for diluted earnings per share		6,472	383		6,415	383
Diluted income per common share		$0.48	$ 0.14		$0.54	$ 0.16

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, (Topic 606). ASU 2014-09 requires an entity to recognize as revenue the amount that reflects the consideration which it expects to be entitled in exchange for goods and services as it transfers control to its customers. It also requires more detailed disclosures to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The Company earns revenue from the sale of scanners, maintenance contracts, product upgrades, patient services and management fees. Under the new guidance, the reporting for patient services revenue is now reported differently. All other streams of revenue were not impacted by the new guidance. The primary change for healthcare providers under the new guidance relates to revenue generated from patient services, with patient responsibility for payment. Under the new guidance, the Company is required to report an implicit price concession (both initially and for the subsequent changes in estimates) as a reduction of revenues as opposed to bad debt expense as a component of operating expenses. The Company now records any changes in expectation of collection amounts due to patient specific events that suggests that the patient no longer has the ability and intent to pay the amount due through the bad debt expense, as that is more indicative of a change in the customer's credit worthiness as opposed to change in the transaction price.

The new standard supersedes most current revenue guidance, including industry-specific guidance. The guidance became effective for the Company on July 1, 2018 and as part of adopting the standard, the Company identified revenue streams of like contracts to allow for ease of implementation. The Company used primarily a portfolio approach to apply the new model to classes of customers with similar characteristics. The impact of adopting the new standard on our total revenue; and income from operations was not material. While the adoption of ASU 2014-09 did impact the presentation of net operating revenues in our Consolidated Statements of Operations and will impact certain disclosures, it did not materially impact our financial position, results of operations or cash flows. There was no cumulative effect of a change in accounting principle recorded related to the adoption of ASU 2014-09 on July 1, 2018.

FONAR CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2018 and 2017

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

(UNAUDITED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements (Continued)

In January 2017, the FASB issued Accounting Standards Update ("ASU") 2017-04, Intangibles – Goodwill and Other (Topic 350). The amendments in this update simplify the test for goodwill impairment by eliminating Step 2 from the impairment test, which required the entity to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities following the procedure that would be required in determining fair value of assets acquired and liabilities assumed in a business combination. The amendments in this update are effective for public companies for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. We are evaluating the impact of adopting this guidance on our consolidated condensed financial statements.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805); Clarifying the Definition of a Business. The amendments in this update clarify the definition of a business to help companies evaluate whether transactions should be accounted for as acquisitions or disposals of assets or businesses. The amendments in this update are effective for public companies for annual periods beginning after December 15, 2017, including interim periods within those periods. The Company has adopted this guidance on our consolidated condensed financial statements and it has no impact on the Company's financial statements.

During February 2016, FAS issued ASU 2016-02, Leases (Topic 842). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based upon the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Lease with a term of 12 months or less will be accounted for similar to existing guidance for operating leases. The new guidance will be effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period and is applied retrospectively. Early adoption is permitted. The Company is currently in the process of assessing the impact the adoption of this guidance will have on the Company's consolidated condensed financial statements.

FASB, the Emerging Issues Task Force and the SEC have issued certain other accounting standards, updates, and regulations as of September 30, 2018 that will become effective in subsequent periods; however, management does not believe that any of those updates would have significantly affected our financial accounting measures or disclosures had they been in effect during 2018 or 2017, and it does not believe that any of those pronouncements will have a significant impact on our consolidated condensed financial statements at the time they become effective.

FONAR CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2018 and 2017

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

(UNAUDITED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications

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

NOTE 3 – ACCOUNTS RECEIVABLE, MEDICAL RECEIVABLE AND MANAGEMENT AND OTHER FEES RECEIVABLE

Receivables, net is comprised of the following at September 30, 2018, and June 30, 2018:

	September 30, 2018		
	Gross Receivable	Allowance for doubtful accounts	Net
Accounts receivable	$4,359	$ 190	$4,169
Accounts receivable - related party	$90	—	$90
Medical receivable	$37,021	$ 23,312	$13,709
Management and other fees receivable	$32,582	$ 10,609	$21,973
Management and other fees receivable from related medical practices ("PC’s")	$8,328	$ 2,166	$6,162

	June 30, 2018		
	Gross Receivable	Allowance for doubtful accounts	Net

Accounts receivable	$4,004	$ 190	$3,814
Accounts receivable - related party	$—	—	$—
Medical receivable	$36,079	$ 22,728	$13,351
Management and other fees receivable	$32,846	$ 10,983	$21,863
Management and other fees receivable from related medical practices ("PC’s")	$7,246	$ 1,711	$5,535

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

Accounts Receivable

Credit risk with respect to the Company’s accounts receivable related to product sales and service and repair fees is limited due to the customer advances received prior to the commencement of work performed and the billing of amounts to customers as sub-assemblies are completed. Service and repair fees are billed on a monthly or quarterly basis and the Company does not continue providing these services if accounts receivable become past due. The Company controls credit risk with respect to accounts receivable from service and repair fees through its credit evaluation process, credit limits, monitoring procedures and reasonably short collection terms. The Company performs ongoing credit authorizations before a product sales contract is entered into or service and repair fees are provided.

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FONAR CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2018 and 2017

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

(UNAUDITED)

NOTE 3 – ACCOUNTS RECEIVABLE, MEDICAL RECEIVABLE AND MANAGEMENT AND OTHER FEES RECEIVABLE (CONTINUED)

Medical Receivables

Medical receivables are due under fee-for-service contracts from third party payors, such as hospitals, government sponsored healthcare programs, patient's legal counsel and directly from patients. Substantially all the revenue relates to patients residing in Florida. The carrying amount of the medical receivable is reduced by an allowance that reflects management's best estimate of the amounts that will not be collected. The Company continuously monitors collections from its clients and maintains an allowance for bad debts based upon the Company's historical collection experience. The Company determines allowances for contractual adjustments and uncollectible accounts based on specific agings, specific payor collection issues that have been identified and based on payor classifications and historical experience at each site.

Management and Other Fees Receivable

The Company's receivables from the related and non-related professional corporations (PC's) substantially consist of fees outstanding under management agreements. Payment of the outstanding fees is dependent on collection by the PC's of fees from third party medical reimbursement organizations, principally insurance companies and health management organizations.

Payment of the management fee receivables from the PC's may be impaired by the inability of the PC's to collect in a timely manner their medical fees from the third party payors, particularly insurance carriers covering automobile no-fault and workers compensation claims due to longer payment cycles and rigorous informational requirements and certain other disallowed claims. Approximately 67% and 66% of the PCs' net revenues for the three months ended September 30, 2018 and 2017, respectively, were derived from no-fault and personal injury protection claims. The Company considers the aging of its accounts receivable in determining the amount of allowance for doubtful accounts.

The Company generally takes all legally available steps to collect its receivables. Credit losses associated with the receivables are provided for in the condensed consolidated financial statements and have historically been within management's expectations.

Net revenues from management and other fees charged to the related PCs accounted for approximately 11.0% and 11.4% of the consolidated net revenues for the three months ended September 30, 2018 and 2017, respectively.

Tallahassee Magnetic Resonance Imaging, PA, Stand Up MRI of Boca Raton, PA and Stand Up MRI & Diagnostic Center, PA (all related medical practices) entered into a guaranty agreement, pursuant to which they cross guaranteed all management fees which are payable to the Company, which have arisen under each individual management agreement. Additional Company managed entities also operate under a guaranty agreement, pursuant to which management fees are payable to the Company.

The Company's patient fee revenue, net of contractual allowances and discounts less the provision for bad debts for the three months ended September 30, 2018 and 2017 are summarized in the following table.

	For the Three Months Ended September 30,	
	2018	2017
Commercial Insurance/ Managed Care	$1,180	$1,198
Medicare/Medicaid	291	272
Workers' Compensation/Personal Injury	3,702	5,578
Other	352	1,605
Patient Fee Revenue, net of contractual allowances and discounts	5,525	8,653
Provision for Bad Debts	—	(3,750)
Patient Fee Revenue - net	$5,525	$4,903

FONAR CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2018 and 2017

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

(UNAUDITED)

NOTE 4 - INVENTORIES

Inventories included in the accompanying condensed consolidated balance sheets consist of the following:

	September 30, 2018	June 30, 2018
Purchased parts, components and supplies	$ 1,437	$ 1,312
Work-in-process	212	119
TOTAL INVENTORIES	$ 1,649	$ 1,431

NOTE 5 - COSTS AND ESTIMATED EARNINGS ON UNCOMPLETED CONTRACTS

Information relating to uncompleted contracts is as follows:

	September 30, 2018	June 30, 2018
Costs incurred on uncompleted contracts	$ 449	$ 449
Estimated earnings	309	309
Subtotal	758	758
Less: Billings to date	671	671
Total Costs and estimated earnings in excess of billings on uncompleted contracts	$ 87	$ 87

NOTE 6 – OTHER INTANGIBLE ASSETS

Other intangible assets, net of accumulated amortization, in the accompanying condensed consolidated balance sheets consist of the following:

	September 30, 2018	June 30, 2018
Capitalized software development costs	$ 7,005	$ 7,005
Patents and copyrights	4,856	4,836
Non-compete	4,100	4,100
Customer relationships	3,800	3,800
Gross Other intangible assets	19,761	19,741
Less: Accumulated amortization	14,383	14,139
Other Intangible Assets	$ 5,378	$ 5,602

Amortization of patents and copyrights for the three months ended September 30, 2018 and 2017 amounted to $50 and $50, respectively.

Amortization of capitalized software development costs for the three months ended September 30, 2018 and 2017 amounted to $0 and $65, respectively.

Amortization of non-compete for the three months ended September 30, 2018 and 2017 amounted to $146 and $146, respectively.

Amortization of customer relationships for the three months ended September 30, 2018 and 2017 amounted to $48 and $48, respectively.

FONAR CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2018 and 2017

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

(UNAUDITED)

NOTE 7 – OTHER CURRENT LIABILITIES

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

	September 30, 2018	June 30, 2018
Accrued salaries, commissions and payroll taxes	$ 1,121	$ 3,438
Litigation accruals	145	145
Sales tax payable	1,707	2,092
Legal and other professional fees	128	119
Accounting fees	30	125
Self-funded health insurance reserve	20	79
Accrued interest and penalty	1,218	1,498
Other	414	682
Other Current Liabilities	$ 4,783	$ 8,178

NOTE 8 – STOCKHOLDERS EQUITY

Common Stock

During the three months ended September 30, 2018, the Company issued 70 shares of common stock for costs and expenses of $1,955.

NOTE 9 - SEGMENT AND RELATED INFORMATION

The Company operates in two industry segments - manufacturing and the servicing of medical equipment and management of diagnostic imaging centers.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies as disclosed in the Company’s 10-K as of June 30, 2018. All inter-segment sales are market-based. The Company evaluates performance based on income or loss from operations.

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

	Medical Equipment	Management Of Diagnostic Imaging Centers	Totals
For the three months ended Sept. 30, 2018			
Net revenues from external customers	$ 2,209	$ 18,496	$20,705
Inter-segment net revenues	$ 228	$ —	$228
(Loss) Income from operations	$ (230)	$ 5,767	$5,537
Depreciation and amortization	$ 93	$ 829	$922
Capital expenditures	$ 20	$ 449	$469
For the three months ended Sept. 30, 2017			
Net revenues from external customers	$ 2,454	$ 16,880	$19,334
Inter-segment net revenues	$ 219	$ —	$219
(Loss) Income from operations	$ (197)	$ 4,982	$4,785
Depreciation and amortization	$ 82	$ 877	$959
Capital expenditures	$ 44	$ 650	$694

FONAR CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2018 and 2017

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

(UNAUDITED)

NOTE 10 – SUPPLEMENTAL CASH FLOW INFORMATION

During the three months ended September 30, 2018 and September 30, 2017, the Company paid $139 and $10 for interest, respectively.

During the three months ended September 30, 2018 and September 30, 2017, the Company paid $180 and $185 for income taxes, respectively.