

VASOMEDICAL, INC
Form 10-Q
May 14, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 31, 2015

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____

Commission File Number: 0-18105

VASOMEDICAL, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

11-2871434
(IRS Employer Identification Number)

180 Linden Ave., Westbury, New York 11590
(Address of principal executive offices)

Registrant's Telephone Number (516) 997-4600

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer.

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer Smaller Reporting Company

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

Number of Shares Outstanding of Common Stock, \$.001 Par Value, at May 8, 2015 – 166,450,370

Vasomedical, Inc. and Subsidiaries

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PART I – FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

Vasomedical, Inc. and Subsidiaries
CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)

| | March 31, 2015 (unaudited) | December 31, 2014 |
|--|----------------------------------|----------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 15,269 | \$ 9,128 |
| Short-term investments | 109 | 111 |
| Accounts and other receivables, net of an allowance for doubtful accounts and commission adjustments of \$4,361 at March 31, 2015 and \$4,571 at December 31, 2014 | 5,025 | 15,273 |
| Receivables due from related parties | 76 | 21 |
| Inventories, net | 2,129 | 1,898 |
| Deferred commission expense | 2,416 | 2,200 |
| Prepaid expenses and other current assets | 440 | 363 |
| Total current assets | 25,464 | 28,994 |
| PROPERTY AND EQUIPMENT, net of accumulated depreciation of \$1,443 at March 31, 2015 and \$1,397 at December 31, 2014 | 242 | 266 |
| GOODWILL | 3,304 | 3,288 |
| INTANGIBLES, net | 2,668 | 2,826 |
| OTHER ASSETS | 4,620 | 5,617 |
| | \$ 36,298 | \$ 40,991 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 567 | \$ 462 |
| Accrued commissions | 1,151 | 2,247 |
| Accrued expenses and other liabilities | 3,366 | 5,627 |
| Sales tax payable | 199 | 247 |
| Deferred revenue - current portion | 11,400 | 9,882 |
| Notes payable | 164 | 163 |
| Deferred tax liability, net | 112 | 112 |
| Notes payable due to related party | 1,056 | 1,039 |
| Total current liabilities | 18,015 | 19,779 |
| LONG-TERM LIABILITIES | | |
| Deferred revenue | 10,053 | 12,650 |
| Other long-term liabilities | 705 | 811 |
| Total long-term liabilities | 10,758 | 13,461 |
| COMMITMENTS AND CONTINGENCIES (NOTE N) | | |
| STOCKHOLDERS' EQUITY | | |
| Preferred stock, \$.01 par value; 1,000,000 shares authorized; nil shares | | |

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| | | |
|--|-----------|-----------|
| issued and outstanding at March 31, 2015, and December 31, 2014 | - | - |
| Common stock, \$.001 par value; 250,000,000 shares authorized; 166,450,370 and 166,435,370 shares issued at March 31, 2015 and December 31, 2014, respectively; 156,142,283 and 156,127,283 shares outstanding at March 31, 2015 and December 31, 2014, respectively | 166 | 166 |
| Additional paid-in capital | 61,943 | 61,924 |
| Accumulated deficit | (52,685) | (52,433) |
| Accumulated other comprehensive income | 101 | 94 |
| Treasury stock, at cost, 10,308,087 shares at March 31, 2015 and December 31, 2014 | (2,000) | (2,000) |
| Total stockholders' equity | 7,525 | 7,751 |
| | \$ 36,298 | \$ 40,991 |

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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Vasomedical, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(Unaudited)

(in thousands, except per share data)

| | Three months ended March 31, | |
|--|---------------------------------|------------|
| | 2015 | 2014 |
| Revenues | | |
| Commissions | \$6,390 | \$6,241 |
| Equipment sales | 719 | 483 |
| Equipment rentals and services | 344 | 367 |
| Total revenues | 7,453 | 7,091 |
| Cost of revenues | | |
| Cost of commissions | 1,523 | 1,602 |
| Cost of equipment sales | 175 | 144 |
| Cost of equipment rentals and services | 188 | 181 |
| Total cost of revenues | 1,886 | 1,927 |
| Gross profit | 5,567 | 5,164 |
| Operating expenses | | |
| Selling, general and administrative | 5,719 | 6,041 |
| Research and development | 134 | 213 |
| Total operating expenses | 5,853 | 6,254 |
| Operating loss | (286) | (1,090) |
| Other income (expense) | | |
| Interest and other income, net | 40 | 56 |
| Total other income, net | 40 | 56 |
| Loss before income taxes | (246) | (1,034) |
| Income tax benefit (expense) | (6) | (10) |
| Net loss | (252) | (1,044) |
| Other comprehensive income | | |
| Foreign currency translation gain (loss) | 7 | (39) |
| Comprehensive loss | \$(245) | \$(1,083) |
| Loss per common share | | |
| - basic and diluted | \$(0.00) | \$(0.01) |
| Weighted average common shares outstanding | | |
| - basic and diluted | 155,945 | 155,454 |

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Vasomedical, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands)

| | Common Stock | | Treasury Stock | | Additional | Accumulated | Accumulated | Total |
|--|--------------|--------|----------------|-------------|------------|--------------|-------------|---------------|
| | Shares | Amount | Shares | Amount | Paid-in | Deficit | Other | Stockholders' |
| | | | | | Capital | | Income | Equity |
| Balance at December 31, 2013 | 164,705 | \$ 165 | (9,481) | \$ (1,755) | \$ 61,508 | \$ (53,561) | \$ 108 | \$ 6,465 |
| Repurchase of shares | - | - | (827) | (245) | - | - | - | (245) |
| Share-based compensation | 1,280 | 1 | - | - | 389 | - | - | 390 |
| Shares not issued for employee tax liability | - | - | - | - | (9) | - | - | (9) |
| Exercise of stock options | 450 | - | - | - | 36 | - | - | 36 |
| Foreign currency translation loss | - | - | - | - | - | - | (14) | (14) |
| Net income | - | - | - | - | - | 1,128 | - | 1,128 |
| Balance at December 31, 2014 | 166,435 | 166 | (10,308) | (2,000) | 61,924 | (52,433) | 94 | 7,751 |
| Share-based compensation | 15 | - | - | - | 19 | - | - | 19 |
| Foreign currency translation gain | - | - | - | - | - | - | 7 | 7 |
| Net loss | - | - | - | - | - | (252) | - | (252) |
| Balance at March 31, 2015 (unaudited) | 166,450 | \$ 166 | (10,308) | \$ (2,000) | \$ 61,943 | \$ (52,685) | \$ 101 | \$ 7,525 |

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Vasomedical, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousands)

| | Three months ended March 31, | |
|---|---------------------------------|--------------|
| | 2015 | 2014 |
| Cash flows from operating activities | | |
| Net loss | \$(252) | \$(1,044) |
| Adjustments to reconcile net loss to net cash provided by operating activities | | |
| Depreciation and amortization | 212 | 99 |
| Loss from interest in joint venture | 2 | - |
| Provision for doubtful accounts and commission adjustments | 9 | (8) |
| Share-based compensation and arrangements | 19 | 153 |
| Changes in operating assets and liabilities: | | |
| Accounts and other receivables | 10,240 | 8,194 |
| Receivables due from related parties | (55) | - |
| Inventories, net | (227) | (225) |
| Deferred commission expense | (211) | (7) |
| Other current assets | (76) | 3 |
| Other assets | 1,070 | (184) |
| Accounts payable | 105 | 147 |
| Accrued commissions | (1,095) | (461) |
| Accrued expenses and other liabilities | (2,267) | (1,449) |
| Sales tax payable | (48) | (33) |
| Deferred revenue | (1,078) | (1,014) |
| Notes payable due to related party | 18 | - |
| Other long-term liabilities | (107) | 25 |
| Net cash provided by operating activities | 6,259 | 4,196 |
| Cash flows from investing activities | | |
| Purchases of equipment and software | (45) | (136) |
| Purchases of short-term investments | (38) | (40) |
| Redemption of short-term investments | 40 | 40 |
| Net cash used in investing activities | (43) | (136) |
| Cash flows from financing activities | | |
| Debt issuance costs | (60) | - |
| Net cash used in financing activities | (60) | - |
| Effect of exchange rate differences on cash and cash equivalents | (15) | (12) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 6,141 | 4,048 |
| Cash and cash equivalents - beginning of period | 9,128 | 7,961 |
| Cash and cash equivalents - end of period | \$15,269 | \$12,009 |
| SUPPLEMENTAL DISCLOSURE OF CASH INFORMATION | | |
| Interest paid | \$3 | \$- |

| | | |
|-------------------|------|------|
| Income taxes paid | \$65 | \$13 |
|-------------------|------|------|

SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES

| | | |
|--|-----|-------|
| Common shares issued for prepaid directors' fees | \$- | \$175 |
|--|-----|-------|

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Vasomedical, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

NOTE A - ORGANIZATION AND PLAN OF OPERATIONS

Vasomedical, Inc. was incorporated in Delaware in July 1987. Unless the context requires otherwise, all references to “we”, “our”, “us”, “Company”, “registrant”, “Vasomedical” or “management” refer to Vasomedical, Inc. and its subsidiaries. In 2010, we were primarily engaged in designing, manufacturing, marketing and supporting Enhanced External Counterpulsation (EECP®) systems, based on our proprietary technology, to physicians and hospitals throughout the United States and in select international markets. Beginning in July 2010 the Company, through its wholly-owned subsidiary Vaso Diagnostics, Inc. (Vaso Diagnostics), began its sales representation business via its agreement (the “GEHC Agreement”) with GE Healthcare (“GEHC”), the healthcare business unit of General Electric Company (NYSE: GE), to be GEHC’s exclusive sales representative for the sale of select GEHC diagnostic imaging products in specific market segments in the 48 contiguous states of the United States and the District of Columbia. In June 2012, the GEHC Agreement was amended and extended through June 30, 2015 and again, in December 2014, the GEHC Agreement was further amended and extended through December 31, 2018, subject to earlier termination under certain circumstances and termination without cause on or after July 1, 2017.

In September 2011, the Company acquired Fast Growth Enterprises Limited (FGE), a British Virgin Islands company, which owns or controls two Chinese operating companies - Life Enhancement Technology Ltd. and Biox Instruments Co. Ltd. (Biox), respectively - to expand its technical and manufacturing capabilities and to enhance its distribution network, technology, and product portfolio. Also in September 2011, the Company restructured to further align its business management structure and long-term growth strategy, and started to operate through three wholly-owned subsidiaries. Vaso Diagnostics continues as the operating subsidiary for the sales representation of GE diagnostic imaging products; Vasomedical Global Corp. operates the Company’s Chinese companies; and Vasomedical Solutions, Inc. was formed to manage and coordinate our EECP® therapy business as well as other medical equipment operations.

In April 2014, the Company entered into an agreement with Chongqing PSK-Health Sci-Tech Development Co., Ltd. (PSK) of Chongqing, China, the leading manufacturer of ECP therapy systems in China, to form a joint venture company, VSK Medical Limited (VSK), for the global marketing, sale and advancement of ECP therapy technology. The Company owns 49.9% of the joint venture, which began operations in January 2015.

In June 2014, the Company entered into a Value Added Reseller Agreement (VAR Agreement) with GEHC to become a national value added reseller of GE Healthcare IT's Radiology PACS (Picture Archiving and Communication System) software solutions and related services, including implementation, management and support. This multiyear VAR Agreement focuses primarily on existing customer segments currently served by Vaso Diagnostics on behalf of GEHC. A new wholly owned subsidiary, VasoHealthcare IT Corp., was formed to conduct the healthcare IT business.

In August 2014, the Company acquired all of the outstanding shares of Genwell Instruments Co. Ltd. (Genwell), located in Wuxi, China, through its wholly owned subsidiary Wuxi Gentone Instruments Co. Ltd. (Gentone). Genwell was formed in China in 2010 with the assistance of a government grant to develop the MobiCare™ wireless multi-parameter patient monitoring system and holds the patents and intellectual property rights for this system.

We report the operations of Vasomedical Global Corp. and Vasomedical Solutions, Inc. under our Equipment segment. Vaso Diagnostics activities are included under our Sales Representation segment. VasoHealthcare IT operations report under the IT segment.

NOTE B - BASIS OF PRESENTATION AND CRITICAL ACCOUNTING POLICIES

Basis of Presentation and Use of Estimates

The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and pursuant to the accounting and disclosure rules and regulations of the Securities and Exchange Commission (the "SEC"). Certain information and disclosures normally included in the unaudited condensed consolidated financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations. Accordingly, these condensed consolidated financial statements should be read in connection with the audited consolidated financial statements and related notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014, as filed with the SEC on March 30, 2015. These unaudited condensed consolidated financial statements include the accounts of the companies over which we exercise control. In the opinion of management, the accompanying condensed consolidated financial statements reflect all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of interim results for the Company. The results of operations for any interim period are not necessarily indicative of results to be expected for any other interim period or the full year.

Vasomedical, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the condensed consolidated financial statements, the disclosure of contingent assets and liabilities in the unaudited condensed consolidated financial statements and the accompanying notes, and the reported amounts of revenues, expenses and cash flows during the periods presented. Actual amounts and results could differ from those estimates. The estimates and assumptions the Company makes are based on historical factors, current circumstances and the experience and judgment of the Company's management. The Company evaluates its estimates and assumptions on an ongoing basis.

Significant Accounting Policies

Note B of the Notes to Consolidated Financial Statements, included in the Annual Report on Form 10-K for the year ended December 31, 2014, includes a summary of the significant accounting policies used in the preparation of the condensed consolidated financial statements.

Revenue and Expense Recognition for the Sales Representation Segment

The Company recognizes commission revenue in its Sales Representation segment (see Note C) when persuasive evidence of an arrangement exists, service has been rendered, the price is fixed or determinable and collectability is reasonably assured. These conditions are deemed to be met when the underlying equipment has been accepted at the customer site in accordance with the specific terms of the sales agreement. Consequently, amounts billable under the agreement with GE Healthcare in advance of the customer acceptance of the equipment are recorded as accounts receivable and deferred revenue in the condensed consolidated balance sheets. Similarly, commissions payable to our sales force related to such billings are recorded as deferred commission expense when the associated deferred revenue is recorded. Commission expense is recognized when the corresponding commission revenue is recognized.

Variable Interest Entities

The Company follows the guidance of accounting for variable interest entities, which requires certain variable interest entities to be consolidated by the primary beneficiary of the entities. Biox is a Variable Interest Entity (VIE).

Liabilities recognized as a result of consolidating this VIE do not represent additional claims on the Company's general assets. The financial information of Biox, which was included in the accompanying condensed consolidated financial statements, is presented as follows:

| | (in thousands) | |
|---------------------------|----------------------------|-------------------------------|
| | As of March 31, 2015 | As of December 31, 2014 |
| | (unaudited) | |
| Cash and cash equivalents | \$117 | \$159 |
| Total assets | \$1,083 | \$1,047 |
| Total liabilities | \$1,047 | \$878 |

(in thousands)

| | Three months ended | |
|-------------------|--------------------|-------------|
| | March 31, | |
| | 2015 | 2014 |
| | (unaudited) | (unaudited) |
| Total net revenue | \$371 | \$329 |
| Net loss | \$(135) | \$(148) |

Reclassifications

Certain reclassifications have been made to prior period amounts to conform with the current period presentation.

Vasomedical, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

NOTE C – SEGMENT REPORTING AND CONCENTRATIONS

The Company views its business in three segments – the Sales Representation segment, the Equipment segment, and the IT segment. The Sales Representation segment operates through the Vaso Diagnostics subsidiary and is currently engaged solely in the fulfillment of the Company’s responsibilities under our agreement with GEHC. The Equipment segment is engaged in designing, manufacturing, marketing and supporting EECP® enhanced external counterpulsation systems both domestically and internationally, as well as the development, production, marketing and supporting of other medical devices. The Company’s new subsidiary, VasoHealthcare IT Corp., formed to conduct its healthcare IT operations, reports through the IT segment. Operations in the IT segment began in the third quarter of 2014.

The chief operating decision maker is the Company’s Chief Executive Officer, who in conjunction with upper management, evaluates segment performance based on operating income. Administrative functions such as finance, human resources, and information technology are centralized and related expenses allocated to each segment. Other costs not directly attributable to operating segments, such as audit, legal, director fees, investor relations, and others, as well as certain assets – primarily cash balances – are reported in the Corporate entity below. There are no intersegment revenues. Summary financial information for the segments is set forth below:

(in thousands)

As of or for the three months ended March 31, 2015 (unaudited)

| | Sales | | | | |
|-------------------------------------|------------------------|-------------------|------------|-----------|--------------|
| | Representation Segment | Equipment Segment | IT Segment | Corporate | Consolidated |
| Revenues from external customers | \$6,390 | \$1,063 | \$- | \$- | \$ 7,453 |
| Operating income (loss) | \$1,087 | \$(635) | \$(355) | \$(383) | \$(286) |
| Total assets | \$11,142 | \$9,592 | \$159 | \$15,405 | \$ 36,298 |
| Accounts and other receivables, net | \$4,363 | \$576 | \$86 | \$- | \$ 5,025 |
| Deferred commission expense | \$2,412 | \$- | \$4 | \$- | \$ 2,416 |
| Other assets | \$3,832 | \$715 | \$- | \$73 | \$ 4,620 |

As of or for the three months ended March 31, 2014 (unaudited)

| | Sales | | | | |
|-------------------------------------|------------------------|-------------------|------------|-----------|--------------|
| | Representation Segment | Equipment Segment | IT Segment | Corporate | Consolidated |
| Revenues from external customers | \$6,241 | \$850 | \$- | \$- | \$ 7,091 |
| Operating income (loss) | \$523 | \$(1,082) | \$- | \$(531) | \$(1,090) |
| Total assets | \$10,209 | \$7,728 | \$- | \$11,986 | \$ 29,923 |
| Accounts and other receivables, net | \$4,535 | \$846 | \$- | \$- | \$ 5,381 |
| Deferred commission expense | \$2,319 | \$- | \$- | \$- | \$ 2,319 |
| Other assets | \$2,836 | \$432 | \$- | \$13 | \$ 3,281 |

For the three months ended March 31, 2015 and 2014, GE Healthcare accounted for 86% and 88% of revenue, respectively, and \$4.2 million or 85%, and \$14.2 million or 93%, of accounts and other receivables at March 31, 2015 and December 31, 2014, respectively.

NOTE D – LOSS PER COMMON SHARE

Basic loss per common share is computed as earnings applicable to common stockholders divided by the weighted-average number of common shares outstanding for the period. Diluted loss per common share reflects the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted to common stock.

The following table represents common stock equivalents that were excluded from the computation of diluted earnings per share for the three months ended March 31, 2015 and 2014, because the effect of their inclusion would be anti-dilutive.

Vasomedical, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

| | (in thousands) | |
|---------------------|----------------------------|-------------------|
| | For the three months ended | |
| | March 31, 2015 | March 31, 2014 |
| | (unaudited) | (unaudited) |
| Stock options | 952 | 1,754 |
| Common stock grants | 390 | 875 |
| | 1,342 | 2,629 |

NOTE E – FAIR VALUE MEASUREMENTS

The Company complies with the provisions of ASC 820 “Fair Value Measurements and Disclosures” (“ASC 820”). Under ASC 820, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the “exit price”) in an orderly transaction between market participants at the measurement date.

The following tables present information about the Company’s assets measured at fair value as of March 31, 2015 and December 31, 2014:

| | (in thousands) | | | |
|---|--|---|--|--|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Balance as of March 31, 2015 (unaudited) |
| Assets | | | | |
| Cash equivalents invested in money market funds (included in cash and cash equivalents) | \$14,666 | \$- | \$ - | \$14,666 |

| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Balance as of December 31, 2014 |
|---|--|---|--|---|
| Assets | | | | |
| Cash equivalents invested in money market funds (included in cash and cash equivalents) | \$8,149 | \$- | \$ - | \$8,149 |

The fair values of the Company's cash equivalents invested in money market funds are determined through market, observable and corroborated sources.

NOTE F – ACCOUNTS AND OTHER RECEIVABLES, NET

The following table presents information regarding the Company's accounts and other receivables as of March 31, 2015 and December 31, 2014:

Vasomedical, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

| | (in thousands) | |
|---|-------------------|----------------------|
| | March 31, 2015 | December 31, 2014 |
| | (unaudited) | |
| Trade receivables | \$9,270 | \$19,734 |
| Due from employees | 116 | 110 |
| Allowance for doubtful accounts and commission adjustments | (4,361) | (4,571) |
| Accounts and other receivables, net | \$5,025 | \$15,273 |

Trade receivables include amounts due for shipped products and services rendered. Amounts currently due under the GEHC Agreement are subject to adjustment in subsequent periods should the underlying sales order amount, upon which the receivable is based, change.

Allowance for doubtful accounts and commission adjustments include estimated losses resulting from the inability of our customers to make required payments, and adjustments arising from subsequent changes in sales order amounts that may reduce the amount the Company will ultimately receive under the GEHC Agreement. Due from employees is primarily commission advances made to sales personnel.

NOTE G – INVENTORIES, NET

Inventories, net of reserves, consist of the following:

| | (in thousands) | |
|-----------------|-------------------|----------------------|
| | March 31, 2015 | December 31, 2014 |
| | (unaudited) | |
| Raw materials | \$592 | \$583 |
| Work in process | 691 | 679 |
| Finished goods | 846 | 636 |
| | \$2,129 | \$1,898 |

At March 31, 2015 and December 31, 2014, the Company maintained reserves for excess and obsolete inventory of \$783,000 and \$815,000, respectively.

NOTE H – GOODWILL AND OTHER INTANGIBLES

Goodwill aggregating \$3,304,000 and \$3,288,000 was recorded on the Company's condensed consolidated balance sheets at March 31, 2015 and December 31, 2014, respectively, pursuant to the acquisition of FGE in September 2011. All of the goodwill was allocated to the Company's Equipment segment. The components of the change in goodwill are as follows:

| | (in thousands) |
|---------------------------------------|--------------------|
| | Carrying Amount |
| Balance at December 31, 2014 | \$3,288 |
| Foreign currency translation | 16 |
| Balance at March 31, 2015 (unaudited) | \$3,304 |

Vasomedical, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

The Company's other intangible assets consist of capitalized patent costs, customer lists and software costs, as follows:

| | (in thousands) | |
|-------------------------------|-------------------|----------------------|
| | March 31, 2015 | December 31, 2014 |
| | (unaudited) | |
| Patents and Technology | | |
| Costs | \$2,478 | \$2,489 |
| Accumulated amortization | (613) | (549) |
| | 1,865 | 1,940 |
| Customer lists | | |
| Costs | 800 | 800 |
| Accumulated amortization | (410) | (381) |
| | 390 | 419 |
| Software | | |
| Costs | 986 | 962 |
| Accumulated amortization | (573) | (495) |
| | 413 | 467 |
| | \$2,668 | \$2,826 |

Patents, customer lists, and software are included in other assets in the accompanying condensed consolidated balance sheets and are amortized on a straight line basis over their estimated useful lives of ten, seven, and five years, respectively. Amortization expense amounted to \$171,000 and \$46,000 for the three months ended March 31, 2015 and 2014, respectively.

NOTE I – OTHER ASSETS

Other assets consist of the following at March 31, 2015 and December 31, 2014:

| | (in thousands) | |
|--|-------------------|----------------------|
| | March 31, 2015 | December 31, 2014 |
| | (unaudited) | |
| Deferred commission expense - noncurrent | \$2,493 | \$2,988 |
| Trade receivables - noncurrent | 1,612 | 2,171 |
| Other | 515 | 458 |
| | \$4,620 | \$5,617 |

Vasomedical, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

NOTE J – ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses and other liabilities consist of the following at March 31, 2015 and December 31, 2014:

| | (in thousands) | |
|--------------------------|-------------------|----------------------|
| | March 31, 2015 | December 31, 2014 |
| | (unaudited) | |
| Accrued compensation | \$433 | \$2,917 |
| Accrued expenses - other | 1,090 | 1,098 |
| Other liabilities | 1,843 | 1,612 |
| | \$3,366 | \$5,627 |

NOTE K- DEFERRED REVENUE

The changes in the Company's deferred revenues are as follows:

| | (in thousands) | |
|---|-------------------------------|-------------------|
| | For the three months ended | |
| | March 31, 2015 | March 31, 2014 |
| | (unaudited) | (unaudited) |
| Deferred revenue at beginning of period | \$22,532 | \$18,019 |
| Additions: | | |
| Deferred extended service contracts | 211 | 237 |
| Deferred in-service and training | 3 | 3 |
| Deferred service arrangements | 10 | 5 |
| Deferred commission revenues | 1,849 | 1,770 |
| Recognized as revenue: | | |
| Deferred extended service contracts | (231) | (227) |
| Deferred in-service and training | (8) | (8) |
| Deferred service arrangements | (23) | (24) |
| Deferred commission revenues | (2,890) | (2,771) |
| Deferred revenue at end of period | 21,453 | 17,004 |
| Less: current portion | 11,400 | 10,294 |
| Long-term deferred revenue at end of period | \$10,053 | \$6,710 |

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Notes to Condensed Consolidated Financial Statements (unaudited)

NOTE L – RELATED-PARTY TRANSACTIONS

David Lieberman, the Vice Chairman of the Company’s Board of Directors, is a practicing attorney in the State of New York and a senior partner at the law firm of Beckman, Lieberman & Barandes, LLP, which performs certain legal services for the Company. Fees of approximately \$60,000 were billed by the firm through each of the three month periods ended March 31, 2015 and 2014, at which dates no amounts were outstanding.

In January 2015, operations began under the VSK joint venture. The Company accounts for its investment in VSK using the equity method. At March 31, 2015, approximately \$55,000 was due from VSK for equipment the Company sold to it, and the Company’s minority interest in VSK’s loss from operations for the three months ended March 31, 2015 approximated \$2,000 and is recorded in Interest and Other Income, net on the Company’s condensed consolidated statement of operations and comprehensive loss.

NOTE M – BUSINESS COMBINATION

On August 6, 2014 the Company acquired Genwell Instruments Co. Ltd (Genwell). The following unaudited supplemental pro forma information presents the financial results as if the acquisition of Genwell had occurred January 1, 2013.

| | (in thousands) | |
|----------------------------------|--------------------|-------------------|
| | Three months ended | |
| | March 31, 2015 | March 31, 2014 |
| Revenue | \$7,453 | \$7,091 |
| Net loss | (252) | (1,173) |
| Basic and diluted loss per share | \$(0.00) | \$(0.01) |

NOTE N – COMMITMENTS AND CONTINGENCIES

Sales representation agreement

In June 2012, the Company concluded an amendment of the GEHC Agreement with GEHC, originally signed on May 19, 2010. The amendment, effective July 1, 2012, extended the initial term of three years commencing July 1, 2010 to five years through June 30, 2015. In December 2014, the Company concluded an additional amendment, effective January 1, 2015, extending the term through December 31, 2018, subject to earlier termination under certain circumstances and termination without cause on or after July 1, 2017. These circumstances include not materially achieving certain sales goals, not maintaining a minimum number of sales representatives, and various legal and GEHC policy requirements. Under the terms of the agreement, the Company is required to lease dedicated computer equipment from GEHC for connectivity to their network.

NOTE O - RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In May 2014, the FASB issued ASU 2014-09 “Revenue from contracts with customers”, a comprehensive new revenue recognition standard which will supersede previous existing revenue recognition guidance. The standard creates a

five-step model for revenue recognition that requires companies to exercise judgment when considering contract terms and relevant facts and circumstances. The five-step model includes (1) identifying the contract, (2) identifying the separate performance obligations in the contract, (3) determining the transaction price, (4) allocating the transaction price to the separate performance obligations and (5) recognizing revenue when each performance obligation has been satisfied. The standard also requires expanded disclosures surrounding revenue recognition. The standard is effective for fiscal periods beginning after December 15, 2016 and allows for either full retrospective or modified retrospective adoption. In April 2015 the FASB issued a proposal to defer the effective date for one year. The Company is currently evaluating the impact of the adoption of this standard on its Consolidated Financial Statements.

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Notes to Condensed Consolidated Financial Statements (unaudited)

In April 2015, the FASB issued ASU 2015-03 “Simplifying the Presentation of Debt Issuance Costs”, which changes the presentation of debt issuance costs in financial statements. An entity presents such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs is reported as interest expense. The standard is effective for fiscal periods beginning after December 31, 2015 and allows for early adoption. The adoption of this statement will impact future presentation and disclosure of the Consolidated Financial Statements.

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ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Except for historical information contained in this report, the matters discussed are forward-looking statements that involve risks and uncertainties. When used in this report, words such as “anticipates”, “believes”, “could”, “estimates”, “expects”, “may”, “plans”, “potential” and “intends” and similar expressions, as they relate to the Company or its management identify forward-looking statements. Such forward-looking statements are based on the beliefs of the Company’s management, as well as assumptions made by and information currently available to the Company’s management. Among the factors that could cause actual results to differ materially are the following: the effect of business and economic conditions; the effect of the dramatic changes taking place in the healthcare environment; the impact of competitive procedures and products and their pricing; medical insurance reimbursement policies; unexpected manufacturing or supplier problems; unforeseen difficulties and delays in the conduct of clinical trials and other product development programs; the actions of regulatory authorities and third-party payers in the United States and overseas; uncertainties about the acceptance of a novel therapeutic modality by the medical community; continuation of the GEHC Agreement and the risk factors reported from time to time in the Company’s SEC reports, including its recent report on Form 10-K. The Company undertakes no obligation to update forward-looking statements as a result of future events or developments.

General Overview

Vasomedical, Inc. was incorporated in Delaware in July 1987. Unless the context requires otherwise, all references to “we”, “our”, “us”, “Company”, “registrant”, “Vasomedical” or “management” refer to Vasomedical, Inc. and its subsidiaries. In 2010, we were primarily engaged in designing, manufacturing, marketing and supporting Enhanced External Counterpulsation (EECP®) systems, based on our proprietary technology, to physicians and hospitals throughout the United States and in select international markets. Beginning in July 2010 the Company, through its wholly-owned subsidiary Vaso Diagnostics, Inc. d/b/a VasoHealthcare, began its sales representation business via its agreement (GEHC Agreement) with GE Healthcare (GEHC), the healthcare business unit of General Electric Company (NYSE: GE), to be GEHC’s exclusive sales representative for the sale of select GEHC diagnostic imaging products in specific market segments in the 48 contiguous states of the United States and the District of Columbia. In June 2012, the GEHC Agreement was amended and extended through June 30, 2015 and again, in December 2014, the GEHC Agreement was further amended and extended through December 31, 2018, subject to earlier termination under certain circumstances and termination without cause on or after July 1, 2017.

In September 2011, the Company acquired Fast Growth Enterprises Limited (FGE), a British Virgin Islands company, which owns or controls two Chinese operating companies - Life Enhancement Technology Ltd. and Biox Instruments Co. Ltd., respectively - to expand its technical and manufacturing capabilities and to enhance its distribution network, technology, and product portfolio. Also in September 2011, the Company restructured to further align its business management structure and long-term growth strategy, and started to operate through three wholly-owned subsidiaries. Vaso Diagnostics d/b/a VasoHealthcare continues as the operating subsidiary for the sales representation of GE diagnostic imaging products; Vasomedical Global Corp. operates the Company’s Chinese companies; and Vasomedical Solutions, Inc. was formed to manage and coordinate our EECP® therapy business as well as other medical equipment operations.

In April 2014, the Company entered into an agreement with Chongqing PSK-Health Sci-Tech Development Co., Ltd. (PSK) of Chongqing, China, the leading manufacturer of ECP therapy systems in China, to form a joint venture company, VSK Medical Limited (VSK), for the global marketing, sale and advancement of ECP therapy technology. The Company owns 49.9% of the shares of VSK. VSK began operations in January 2015.

In June 2014, the Company entered into a Value Added Reseller Agreement (VAR Agreement) with GEHC to become a national value added reseller of GE Healthcare IT's Radiology PACS (Picture Archiving and Communication System) software solutions and related services, including implementation, management and support. This multiyear VAR Agreement focuses primarily on existing customer segments currently served by Vaso Diagnostics on behalf of GEHC. A new wholly owned subsidiary, VasoHealthcare IT Corp., was formed to conduct the healthcare IT business.

Vasomedical, Inc. and Subsidiaries

In August 2014, the Company acquired all of the outstanding shares of Genwell Instruments Co. Ltd. (Genwell), located in Wuxi, China, through its wholly owned subsidiary Wuxi Gentone Instruments Co. Ltd. (Gentone). Genwell was formed in China in 2010 with the assistance of a government grant to develop the MobiCare™ wireless multi-parameter patient monitoring system and holds the patents and intellectual property rights for this system.

We report the operations of Vasomedical Global Corp. and Vasomedical Solutions, Inc. under our Equipment segment. Vaso Diagnostics activities are included under our Sales Representation segment. VasoHealthcare IT operations report under the IT segment.

The Company continues to pursue acquisitions or partnership opportunities in the international and domestic markets and to seek expansion of its sales representation business.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon the accompanying unaudited condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”). The preparation of financial statements in conformity with U.S. GAAP requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses, and the related disclosures at the date of the financial statements and during the reporting period. Although these estimates are based on our knowledge of current events, our actual amounts and results could differ from those estimates. The estimates made are based on historical factors, current circumstances, and the experience and judgment of our management, who continually evaluate the judgments, estimates and assumptions and may employ outside experts to assist in the evaluations.

Certain of our accounting policies are deemed “critical”, as they are both most important to the financial statement presentation and require management’s most difficult, subjective or complex judgments as a result of the need to make estimates about the effect of matters that are inherently uncertain. For a discussion of our critical accounting policies, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for the year ended December 31, 2014.

Results of Operations – For the Three Months Ended March 31, 2015 and 2014

Total revenue for the three months ended March 31, 2015 and 2014 was \$7,453,000 and \$7,091,000, respectively, an increase of \$362,000, or 5% year-over-year. Net loss for the three months ended March 31, 2015 and 2014 was \$252,000 and \$1,044,000, respectively, a decrease of \$792,000, or 76%. Our total net loss was \$(0.00) and \$(0.01) per basic and diluted common share for the three months ended March 31, 2015 and 2014, respectively.

Revenues

Commission revenues in the Sales Representation segment were \$6,390,000 in the first quarter of 2015, as compared to \$6,241,000 in the first quarter of 2014, an increase of 2%. The increase in commission revenue in the first quarter of 2015 is due primarily to an increase in volume of equipment delivered by GEHC. The Company recognizes commission revenue when the underlying equipment has been accepted at the customer site in accordance with the specific terms of the sales agreement. Consequently, amounts billable under the agreement with GE Healthcare prior to customer acceptance of the equipment are recorded as deferred revenue in the condensed consolidated balance sheet. As of March 31, 2015, \$20,114,000 in deferred commission revenue was recorded in the Company’s condensed consolidated balance sheet, of which \$9,420,000 is long-term. At March 31, 2014, \$15,665,000 in deferred commission revenue was recorded in the Company’s condensed consolidated balance sheet, of which \$6,112,000 was

long-term.

Revenue in our Equipment segment increased by \$213,000, or 25%, to \$1,063,000 for the three-month period ended March 31, 2015 from \$850,000 for the same period of the prior year. Equipment segment revenue from equipment sales increased by \$236,000, or 49%, to \$719,000 for the three-month period ended March 31, 2015 as compared to \$483,000 for the same period in the prior year, resulting from increases in EECP® revenues as a result of higher sales volume, and in international sales by our China operations.

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Equipment segment revenue from equipment rental and services decreased 6% to \$344,000 in the first quarter of 2015 from \$367,000 in the first quarter of 2014. Revenue from equipment rental and services represented 32% and 43% of total Equipment segment revenue in the first quarters of fiscal 2015 and fiscal 2014, respectively. The decrease in revenue generated from equipment rentals and services is due primarily to lower field service and accessory part revenues, partially offset by increased service contract revenue..

Gross Profit

The Company had a gross profit of \$5,567,000, or 75% of revenue, in the first quarter of 2015 compared to \$5,164,000, or 73% of revenue, in the first quarter of the prior year, an increase of 8%. The increase is principally due to higher gross profit margin in both our Sales Representation segment and our Equipment segment.

Sales Representation segment gross profit was \$4,867,000, or 76% of the segment revenue, for the three months ended March 31, 2015 as compared to \$4,639,000, or 74% of the segment revenue, for the three months ended March 31, 2014. The increase in absolute dollars and margin percentage was due to higher equipment deliveries by GEHC during the first quarter of 2015 than in the same period last year, as well as lower commission expense in the first quarter of 2015. Cost of commissions of \$1,523,000 and \$1,602,000, for the three months ended March 31, 2015 and 2014, respectively, reflects commission expense associated with recognized commission revenues. Commission expense associated with deferred revenue is recorded as deferred commission expense until the related commission revenue is earned.

Equipment segment gross profit increased to \$700,000, or 66% of Equipment segment revenues, for the first quarter of 2015 compared to \$525,000, or 62% of Equipment segment revenues, for the same quarter of 2014. Gross profit margin in the Equipment segment improved due to higher margin on EECP® equipment as a result of higher shipment volume during the quarter.

Operating Loss

Operating loss was \$286,000 for the three months ended March 31, 2015 as compared to \$1,090,000 for the three months ended March 31, 2014, a decrease of \$804,000. Included in this loss was a \$355,000 operating loss in our IT segment which began operations in the third quarter of 2014. During this period, there was also a \$403,000 increase in gross profit and a \$322,000 decrease in selling, general, and administrative costs. Operating income in the Sales Representation segment increased by \$564,000 to \$1,087,000 as compared to \$523,000 in the first quarter of the prior year, due mainly to higher gross margin combined with lower SG&A costs. In addition, operating loss in the Equipment segment decreased by \$447,000, or 41%, to \$635,000 compared to \$1,082,000 in the same quarter of the prior year, due primarily to \$175,000 higher gross profit and \$193,000 lower SG&A costs in the current year quarter.

SG&A expenses for the first quarter of 2015 and 2014 were \$5,719,000, or 77% of revenues, and \$6,041,000, or 85% of revenues, respectively, reflecting a decrease of \$322,000 or approximately 5%. The decrease in SG&A expenditures in the first quarter of 2015 resulted primarily from having the annual national sales meeting of the Sales Representation segment in the second quarter of 2015 instead of the first quarter last year, a reduction in personnel and other costs in the Equipment segment, and lower corporate expenses, primarily accounting and directors' fees, partially offset by costs incurred in the IT segment,

Research and development ("R&D") expenses were \$134,000, or 2% of revenues (13% of Equipment segment revenues), for the first quarter of 2015, a decrease of \$79,000, or 37%, from \$213,000, or 3% of revenues (25% of Equipment segment revenues), for the first quarter of 2014. The decrease is primarily attributable to the elimination of non-recurring costs in the first quarter of 2014 associated with the reclassification by FDA of our EECP® therapy

system, as well as lower clinical grants in the first quarter of 2015.

Vasomedical, Inc. and Subsidiaries

Interest and Other Income, Net

Interest and other income, net for the first quarter of 2015 was \$40,000 as compared to \$56,000 for the first quarter of 2014. The decrease was due primarily to lower government grants received by our Chinese subsidiaries.

Income Tax Expense

During the first quarter of 2015 we recorded income tax expense of \$6,000 as compared to income tax expense of \$10,000 for the first quarter of 2014. The decrease arose from lower tax expense at our Chinese subsidiaries.

Liquidity and Capital Resources

Cash and Cash Flow

We have financed our operations from working capital. At March 31, 2015, we had cash and cash equivalents of \$15,269,000, short-term investments of \$109,000 and working capital of \$7,449,000 compared to cash and cash equivalents of \$9,128,000, short-term investments of \$111,000 and working capital of \$9,215,000 at December 31, 2014.

Cash provided by operating activities was \$6,259,000 during the first three months of 2015, which consisted of a net loss after adjustments to reconcile net loss to net cash of \$10,000, offset by cash provided by operating assets and liabilities of \$6,269,000. The changes in the account balances primarily reflect a decrease in accounts and other receivables of \$10,240,000, partially offset by decreases in deferred revenue of \$1,078,000, accrued commissions of \$1,095,000, and accrued expenses of \$2,267,000. Significantly higher commission billings and recognized revenue were generated in the fourth quarter of 2014 resulting in significant cash inflows early in 2015.

Cash used in investing activities during the three-month period ended March 31, 2015 was \$43,000, primarily for the purchase of equipment and software.

Cash used in financing activities during the three-month period ended March 31, 2015 was \$60,000 for expenses incurred in debt issuance activities.

Liquidity

The Company expects to be profitable for the year ended December 31, 2015 and continue to generate positive cash flow through its existing sales representation operations, improved operating efficiency and growth in its China operations and by expanding its market presence and product portfolio. The Company has reorganized its EECP® business model, both domestically and internationally, including the start of operations of the joint venture VSK Medical, to reduce costs and achieve profitability in this business. The Company will continue to pursue acquisitions and partnership opportunities in the international and domestic markets and to expand its sales representation business.

Vasomedical, Inc. and Subsidiaries

ITEM 4 - CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures reporting as promulgated under the Exchange Act is defined as controls and procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act are recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms. Disclosure controls and procedures include without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Our CEO and our CFO have evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2015 and have concluded that the Company’s disclosure controls and procedures were effective as of March 31, 2015.

Changes in Internal Control Over Financial Reporting

There was no change in the Company’s internal control over financial reporting during the Company’s last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

Vasomedical, Inc. and Subsidiaries

PART II - OTHER INFORMATION

ITEM 6 – EXHIBITS

Exhibits

31 Certifications of the Chief Executive Officer and the Chief Financial Officer pursuant to Rules 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32 Certifications of the Chief Executive Officer and the Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Vasomedical, Inc. and Subsidiaries

In accordance with the requirements of the Exchange Act, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

VASOMEDICAL, INC.

By: /s/ Jun Ma
Jun Ma

President and Chief Executive Officer
(Principal Executive Officer)

/s/ Michael J. Beecher
Michael J. Beecher

Chief Financial Officer and Principal Accounting Officer

Date: May 14, 2015

