

VASOMEDICAL INC
Form 10-Q
May 15, 2012

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, 2012

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 10, 2012 – 158,682,110

Vasomedical, Inc. and Subsidiaries

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ITEM 1 - FINANCIAL STATEMENTS

Vasomedical, Inc. and Subsidiaries

CONSOLIDATED CONDENSED BALANCE SHEETS

(in thousands, except per share data)

	March 31, 2012 (unaudited)	December 31, 2011 (audited)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$13,331	\$2,294
Short-term investments	110	110
Accounts and other receivables, net of an allowance for doubtful accounts and commission adjustments of \$2,089 at March 31, 2012 and \$2,163 at December 31, 2011	6,228	20,695
Receivables due from related parties	41	196
Inventories, net	2,185	2,421
Financing receivables, net	20	19
Deferred commission expense	2,559	2,053
Deferred related party consulting expense - current portion	467	510
Other current assets	282	202
Total current assets	25,223	28,500
PROPERTY AND EQUIPMENT, net of accumulated depreciation of \$1,493 at March 31, 2012 and \$1,774 at December 31, 2011	514	429
GOODWILL	3,939	3,939
FINANCING RECEIVABLES, net	11	16
DEFERRED RELATED PARTY CONSULTING EXPENSE	-	85
OTHER ASSETS	931	1,337
	\$30,618	\$34,306
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$362	\$273
Accrued commissions	2,103	3,889
Accrued expenses and other liabilities	2,270	2,531
Sales tax payable	399	355
Income taxes payable	101	278
Deferred revenue - current portion	11,311	9,484
Deferred gain on sale-leaseback of building - current portion	18	31
Deferred tax liability, net	112	112
Notes payable due to related party	3	193
Total current liabilities	16,679	17,146
LONG-TERM LIABILITIES		
Deferred revenue	3,470	5,743
Other long-term liabilities	73	141
Total long-term liabilities	3,543	5,884
COMMITMENTS AND CONTINGENCIES (NOTE N)		
STOCKHOLDERS' EQUITY		

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Preferred stock, \$.01 par value; 1,000,000 shares authorized; nil shares issued and outstanding at March 31, 2012, and December 31, 2011	-	-
Common stock, \$.001 par value; 250,000,000 shares authorized; 158,182,110 and 153,186,295 shares issued and outstanding at March 31, 2012 and December 31, 2011	158	153
Additional paid-in capital	60,669	60,188
Accumulated deficit	(50,409)	(49,065)
Accumulated other comprehensive loss	(22)	-
Total stockholders' equity	10,396	11,276
	\$30,618	\$34,306

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

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Vasomedical, Inc. and Subsidiaries

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Unaudited)
(in thousands, except per share data)

	Three months ended March 31,	
	2012	2011
Revenues		
Equipment sales	\$1,453	\$528
Equipment rentals and services	533	577
Commissions	4,057	3,740
Total revenues	6,043	4,845
Cost of revenues		
Cost of sales, equipment	606	394
Cost of equipment rentals and services	293	265
Cost of commissions	963	930
Total cost of revenues	1,862	1,589
Gross profit	4,181	3,256
Operating expenses		
Selling, general and administrative	5,330	3,629
Research and development	152	108
Total operating expenses	5,482	3,737
Operating loss	(1,301)	(481)
Other income (expenses)		
Interest and financing costs	(3)	(1)
Interest and other income, net	(28)	2
Amortization of deferred gain on sale-leaseback of building	13	13
Total other income (expenses), net	(18)	14
Loss before income taxes	(1,319)	(467)
Income tax benefit (expense), expense net	(25)	2
Net loss	(1,344)	(465)
Preferred stock dividends	-	(128)
Net loss applicable to common stockholders	(1,344)	(593)
Other comprehensive loss		
Foreign currency translation loss	(22)	-
Comprehensive loss	\$(1,366)	\$(593)
Loss per common share		
- basic and diluted	\$(0.01)	\$(0.01)
Weighted average common shares outstanding		

- basic and diluted	154,377	111,937
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The accompanying notes are an integral part of these consolidated condensed financial statements.

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Vasomedical, Inc. and Subsidiaries

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)
(in thousands)

	Three months ended	
	March 31, 2012	March 31, 2011
Cash flows from operating activities		
Net loss	\$ (1,344)	\$ (465)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation and amortization of property and equipment	49	39
Amortization of deferred gain on sale-leaseback of building	(13)	(13)
Provision for doubtful accounts and commission adjustments	(74)	(202)
Amortization of deferred distributor costs	-	31
Share-based compensation	129	126
Amortization of deferred consulting expense	152	47
Changes in operating assets and liabilities:		
Accounts and other receivables	14,543	10,837
Receivables due from related parties	158	-
Inventories, net	226	(84)
Finance receivables	5	4
Deferred commission expense	(507)	162
Other current assets	(91)	22
Other assets	414	69
Accounts payable	89	180
Accrued commissions	(1,786)	(608)
Accrued expenses and other liabilities	(278)	(788)
Sales tax payable	43	3
Income taxes payable	(177)	(2)
Deferred revenue	(447)	(1,845)
Deferred tax liability	(1)	-
Trade payable due to related party	-	(243)
Other long-term liabilities	(68)	(481)
Net cash provided by operating activities	11,022	6,789
Cash flows from investing activities		
Purchases of property and equipment	(113)	-
Purchases of short-term investments	-	(40)
Net cash used in investing activities	(113)	(40)
Cash flows from financing activities		
Proceeds from exercise of warrant	343	-
Repayment of note payable	-	(294)

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Repayment of notes payable due to related party	(190)	-
Proceeds from issuance of preferred stock	-		150
Net cash provided by (used in) financing activities	153		(144)
Effect of exchange rate differences on cash	(25)	-

NET INCREASE IN CASH AND CASH EQUIVALENTS			
	11,037		6,605
Cash and cash equivalents - beginning of period	2,294		3,101
Cash and cash equivalents - end of period	\$ 13,331		\$ 9,706

SUPPLEMENTAL DISCLOSURE OF CASH INFORMATION			
Interest paid	\$ 2		\$ 4
Income taxes paid	\$ 186		\$ 5

SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES			
Inventories transferred to property and equipment, attributable to operating leases, net	\$ 12		\$ 62
Accrued preferred stock dividends	\$ -		\$ 128
Issuance of preferred stock in satisfaction of accrued dividend	\$ -		\$ 101
Common shares issued for consulting agreements	\$ -		\$ 1,020

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

Vasomedical, Inc. and Subsidiaries

Notes to Consolidated Condensed 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. Since 1995, we have been primarily engaged in designing, manufacturing, marketing and supporting EECP® enhanced external counterpulsation systems based on our unique proprietary technology currently indicated for use in cases of stable or unstable angina (i.e., chest pain), congestive heart failure (“CHF”), acute myocardial infarction (i.e., heart attack, (MI)) and cardiogenic shock. The Company, through its wholly-owned subsidiary Vaso Diagnostics, Inc. d/b/a VasoHealthcare, is the exclusive sales representative for GE Healthcare (“GEHC”), the healthcare business unit of General Electric Company (NYSE: GE), for the sale of select GE Healthcare Diagnostic Imaging products. Under the GEHC Agreement, VasoHealthcare has been appointed the exclusive representative for these products to specific market segments in the 48 contiguous states of the United States and the District of Columbia. The GEHC Agreement has an initial term of three years commencing July 1, 2010, subject to extension and also subject to earlier termination under certain circumstances.

In September 2011, the Company acquired Fast Growth Enterprises Limited (FGE), a British Virgin Islands company which, through its subsidiaries, owns and controls two Chinese operating companies - Life Enhancement Technologies 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 now operates through three wholly-owned subsidiaries. Vaso Diagnostics d/b/a VasoHealthcare continues as the operating subsidiary for the sales representation of GE Healthcare diagnostic imaging products; Vasomedical Global Corp. operates the Company’s recently-acquired Chinese companies; and Vasomedical Solutions, Inc. manages and coordinates our EECP® therapy business as well as other medical equipment operations.

We report the operations of Vasomedical Global Corp. and Vasomedical Solutions, Inc. under our Equipment reportable segment. VasoHealthcare activities are included under our Sales Representation reportable segment (See Note C).

NOTE B - BASIS OF PRESENTATION AND CRITICAL ACCOUNTING POLICIES

Basis of Presentation and Use of Estimates

The accompanying consolidated condensed 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 consolidated condensed financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations. Accordingly, these consolidated condensed 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 transition period ended December 31, 2011, as filed with the SEC. These consolidated condensed financial statements include the accounts of the companies over which we exercise control. In the opinion of management, the accompanying consolidated condensed 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.

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 consolidated condensed financial statements, the disclosure of contingent assets and liabilities in the consolidated condensed 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.

Vasomedical, Inc. and Subsidiaries

Notes to Consolidated Condensed Financial Statements (unaudited)

Significant Accounting Policies

Note B of the Notes to Consolidated Financial Statements, included in the Transition Report on Form 10-K for the seven months ended December 31, 2011, includes a summary of the significant accounting policies used in the preparation of the consolidated condensed financial statements.

Reclassifications

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

NOTE C – SEGMENT REPORTING AND CONCENTRATIONS

The Company views its business in two segments – the Equipment segment and the Sales Representation segment. The Equipment segment is engaged in designing, manufacturing, marketing and supporting EECP® enhanced external counterpulsation systems both domestically and internationally, as well as the marketing of other medical devices. The Sales Representation segment operates through the VasoHealthcare subsidiary and is currently engaged solely in the execution of the Company’s responsibilities under our agreement with GEHC. The Company 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. 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, 2012			
	Sales			
	Equipment Segment	Representation Segment	Corporate	Consolidated
Revenues from external customers	\$1,986	\$ 4,057	\$-	\$ 6,043
Operating loss	\$(157)	\$ (796)	\$(348)	\$ (1,301)
Total assets	\$9,227	\$ 8,381	\$13,010	\$ 30,618
Accounts and other receivables, net	\$1,224	\$ 5,004	\$-	\$ 6,228
Deferred commission expense	\$-	\$ 3,399	\$-	\$ 3,399
	As of or for the three months ended March 31, 2011			
	Sales			
	Equipment Segment	Representation Segment	Corporate	Consolidated
Revenues from external customers	\$1,105	\$ 3,740	\$-	\$ 4,845
Operating loss	\$(266)	\$ (32)	\$(183)	\$ (481)
Total assets	\$4,095	\$ 4,148	\$9,801	\$ 18,044
Accounts and other receivables, net	\$454	\$ 1,874	\$-	\$ 2,328
Deferred commission expense	\$-	\$ 2,270	\$-	\$ 2,270

Vasomedical, Inc. and Subsidiaries

Notes to Consolidated Condensed Financial Statements (unaudited)

For the three months ended March 31, 2012 and 2011, GE Healthcare accounted for 67% and 77% of revenue, respectively. Also, GE Healthcare accounted for \$4.9 million, or 76%, and \$19.7 million, or 95%, of accounts and other receivables at March 31, 2012 and December 31, 2011, respectively.

NOTE D – SHARE-BASED COMPENSATION

The Company complies with ASC Topic 718 “Compensation – Stock Compensation” (“ASC 718”), which requires all share-based awards to employees, including grants of employee stock options, to be recognized in the consolidated condensed financial statements based on their estimated fair values.

During the three-month period ended March 31, 2012, the Company’s Board of Directors granted 500,000 restricted shares of common stock, valued at \$120,000 to an officer, of which half vested immediately and the remainder vests over one year. During the three-month period ended March 31, 2011, 200,000 shares of common stock valued at \$62,000 were issued to two directors for joining the Board of Directors.

During the three-month periods ended March 31, 2012 and 2011, the Company’s Board of Directors did not grant any stock options.

Share-based compensation expense recognized for the three months ended March 31, 2012 and 2011 was \$129,000 and \$126,000, respectively. These expenses are included in cost of revenues; selling, general, and administrative expenses; and research and development expenses in the consolidated condensed statements of operations. Expense for share-based arrangements was \$152,000 and \$47,000 for the three months ended March 31, 2012 and 2011, respectively. Unrecognized expense related to existing share-based arrangements is approximately \$1.1 million at March 31, 2012 and will be recognized ratably through July 2013.

NOTE E – LOSS PER COMMON SHARE

Basic earnings 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 earnings 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.

Basic and diluted loss per common share was \$0.01 for the three months ended March 31, 2012 and 2011.

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, 2012 and 2011, because the effect of their inclusion would be anti-dilutive.

(in thousands)	March 31, 2012	March 31, 2011
Stock options	1,810	1,864
Warrants	1,500	4,286
Contingently issuable shares	2,000	-

Convertible preferred stock	-	31,855
Common stock grants	2,948	4,050
	8,258	42,055

Vasomedical, Inc. and Subsidiaries

Notes to Consolidated Condensed Financial Statements (unaudited)

NOTE F – 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 and liabilities measured at fair value as of March 31, 2012 and December 31, 2011:

	(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, 2012 (unaudited)
Assets				
Cash equivalents invested in money market funds (included in cash and cash equivalents)	\$12,078	\$	\$	\$12,078
Investment in certificates of deposit (included in short-term investments)	110			110
	\$12,188	\$-	\$ -	\$12,188
Assets				
	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, 2011
Assets				
Cash equivalents invested in money market funds (included in cash and cash equivalents)	\$1,313	\$	\$	\$1,313
Investment in certificates of deposit (included in short-term investments)	110			110
	\$1,423	\$-	\$ -	\$1,423