VASOMEDICAL, INC
Form 10-K
March 30, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2015
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File No. 0-18105

VASOMEDICAL, INC.
(Exact name of registrant as specified in Its Charter)

Delaware	11-2871434
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

137 Commercial Street, Plainview, New York 11803
(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number, including area code: (516) 997-4600
Securities registered under Section 12(b) of the Act: None
Securities registered under Section 12(g) of the Act:

Common Stock, $.001 par value
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 past 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 o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T

(§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post
such files) Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.
Large accelerated filer o Accelerated filer o Non-accelerated filer o Smaller reporting company x

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

The aggregate market value of common stock held by non-affiliates was approximately $17.1 million based on the closing sales price of the common stock as quoted on the OTC PK on June 30, 2015.

At March 25, 2016, the number of shares outstanding of the issuer's common stock was 158,441,802.

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EXHIBITS

Exhibit 31 - Certifications Pursuant to Securities Exchange Act Rule 13A-14(A)/15D-14(A)
Exhibit 32 - Certifications of Periodic Report

PART I

ITEM 1 – BUSINESS

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 IT and healthcare; continuation of the GEHC agreements; the impact of competitive technology 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; and the risk factors reported from time to time in the Company's SEC reports. The Company undertakes no obligation to update forward-looking statements as a result of future events or developments.

Unless the context requires otherwise, all references to "we", "our", "us", "Company", "registrant", "Vasomedical" or "management" refer to Vasomedical, Inc. and its subsidiaries.

General Overview

Vasomedical, Inc. principally operates in three distinct business segments in the healthcare equipment and information technology industries. We manage and evaluate our operations, and report our financial results, through these three business segments.

- IT segment, operating through a wholly-owned subsidiary VasoTechnology, Inc., primarily focuses on healthcare IT and managed network technology services;

- Professional sales service segment (formerly the sales representation segment), operating through a wholly-owned subsidiary Vaso Diagnostics, Inc. d/b/a VasoHealthcare, primarily focuses on the sale of healthcare capital equipment for large OEMs into the health provider middle market; and

- Equipment segment, operating through wholly-owned subsidiaries Vasomedical Global Corp. and Vasomedical Solutions, Inc., primarily focuses on the design, manufacture, sale and service of proprietary medical devices.

VasoTechnology

VasoTechnology, Inc. was formed in May 2015, at the time the Company acquired all of the assets of NetWolves, LLC and its affiliates, including the membership interests in NetWolves Network Services LLC (collectively, "NetWolves"), to address a major issue facing the healthcare IT industry. It currently consists of a managed network and security service division and a healthcare IT application VAR (value added reseller) division. Its current offering includes:

- Managed diagnostic imaging applications (national channel partner of GEHC IT).
- Managed network infrastructure (routers, switches and other core equipment).
- Managed network transport (FCC licensed carrier reselling 175+ facility partners).
- Managed security services (IBM's first security white label partner).

VasoTechnology uses a combination of proprietary technology, methodology and best-in-class third-party applications to deliver its value proposition.

VasoHealthcare

VasoHealthcare commenced operations in 2010, in conjunction with the Company's execution of its exclusive sales representation agreement with General Electric Healthcare ("GEHC"), which is the healthcare business division of the General Electric Company ("GE"), to exploit the sale of certain healthcare capital equipment in the health provider middle market. Sales of GEHC equipment by the Company have grown significantly since then.

VasoHealthcare's current offering consists of:

·GEHC diagnostic imaging capital equipment.
·GEHC service agreements.
·GEHC and third party financial services.

VasoHealthcare has built a team of approximately 90 highly experienced sales professionals who utilize highly focused sales management and analytic tools to manage the complete sales process and to increase market penetration.

Vasomedical Global and Vasomedical Solutions

Vasomedical Global was formed in 2011 to combine and coordinate the various design, development manufacturing, and sales operations of medical devices acquired by the Company. These devices primarily consist of cardiovascular diagnostic and therapeutic systems. Its current offering consists of:

·Biox™ series Holter monitors and ambulatory blood pressure recorders .
·ARCS™ series analysis, reporting and communication software for physiological signals such as ECG and blood pressure.
·MobiCare™ multi-parameter wireless vital-sign monitoring system.
·EECP® therapy systems, used for non-invasive, outpatient treatment for ischemic heart disease.

This segment uses its extensive cardiovascular device knowledge coupled with its significant engineering resources to cost effectively create and market its proprietary technology. It works with a global distribution network of channel partners, as well as a global joint venture arrangement, to sell its products.

Historical Background

Vasomedical, Inc. was incorporated in Delaware in July 1987. For most of its history, the Company was a single-product company designing, manufacturing, marketing and servicing its proprietary Enhanced External Counterpulsaion, or EECP®, therapy systems, mainly for the treatment of angina. In 2010 it began to diversify its business operations.

In May 2010, the Company launched its Professional Sales Service business through a wholly-owned subsidiary Vaso Diagnostics, Inc. d/b/a VasoHealthcare, which was appointed the exclusive representative for the sale of select General Electric Company ("GE") diagnostic imaging equipment to specific market segments in the 48 contiguous states of the United States and the District of Columbia. The original agreement ("GEHC Agreement") was for three years ending June 30, 2013; in 2012 it was extended to June 30, 2015 and again in 2014 to December 31, 2018.

In June 2014, the Company began its IT segment business by concluding the 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 VasoHealthcare on behalf of GEHC. A new wholly owned subsidiary, VasoHealthcare IT Corp. ("VHC

IT"), was formed to conduct the healthcare IT business.

In May 2015, the Company further expanded its IT segment business by acquiring all of the assets of NetWolves, LLC and its affiliates, including the membership interests in NetWolves Network Services LLC (collectively, "NetWolves"), pursuant to an Asset Purchase Agreement. NetWolves designs and delivers efficient and cost-effective multi-network and multi-technology solutions as a managed network provider, and provides a complete single-source solution that includes design, network redundancy, application device management, real-time network monitoring, reporting and support systems as a comprehensive solution. The Company believes there are significant operational synergies between NetWolves' capabilities and VasoHealthcare IT's requirements under its VAR Agreement with GEHC, and is engaged in expanding NetWolves' existing services to the healthcare IT market.

The Company's Equipment business also has been significantly expanded from the original EECP®-only operations. In September 2011, the Company acquired FGE, a British Virgin Islands company, which owns or controls two Chinese operating companies - Life Enhancement Technology Ltd. ("LET") based in Foshan, China, and Biox Instruments Co. Ltd. ("Biox") based in Wuxi, China, respectively - to expand its technical and manufacturing capabilities and to enhance its distribution network, technology, and product portfolio. Biox is a variable interest entity controlled by FGE through certain contracts and an option to acquire all the shares of Biox. 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 intellectual property rights for this system. As a result, the Company has now expanded its equipment products portfolio to include Biox™ series ambulatory patient monitoring systems, and the MobiCare™ patient monitoring device.

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 external counter pulsation, or ECP, therapy systems in China, to form a joint venture company, VSK Medical Limited ("VSK"), a Cayman Islands company, for the global marketing, sale and advancement of ECP therapy technology. The Company owns 49.9% of VSK, which commenced operations in January 2015.

Management

The Company currently bases its headquarters in Plainview, Long Island, NY and maintains an office in Manhattan, NY. Reporting to the Board of Directors, corporate officers of the Company include the President and Chief Executive Officer ("CEO"), Chief Financial Officer ("CFO"), Chief Operating Officer ("COO"), and Vice President of Finance and Treasurer.

The management of our IT segment including its sales and marketing efforts is led by the COO of the Company, who is also the President of NetWolves, which is based in Tampa, FL. Our VasoHealthcare IT VAR business is led by the General Manager of the business unit and supported by several software solution sales and implementation specialists. The unit works with our VasoHealthcare diagnostic imaging equipment sales team to generate leads and potential clients for the software solutions products and works with NetWolves sales and technical teams for comprehensive IT product and service offerings.

In the professional sales services segment, we sell GEHC diagnostic imaging products to our assigned market through a nationwide team of sales employees led by several regional managers who report to the Vice President of National Sales as well as to the President of VasoHealthcare. The operation is supported by in-house administrative, analytic and other support staff, as well as applicable GEHC employees.

The equipment segment is directly supervised by the CEO of the Company. Sales and marketing efforts in the domestic market are led by a vice president of national sales and service at Vasomedical Solutions, and the managers of our China subsidiaries are in charge of the production of all our proprietary products and marketing and sales in the

international markets. We historically have marketed our EECP® systems internationally through distributors in various countries throughout Europe, the Middle East, Africa, Asia and Latin America. This distribution structure has been realigned with our partner's via the joint venture VSK Medical. We sell our Biox™ series ambulatory monitoring systems and related products in China by a group of sales managers as well as through distributors covering various regions of China and other international geographies.

Competition

In the U.S. diagnostic imaging market, our main competitors are Siemens, Philips, Toshiba, and Hologic. Key competitive factors in the market include price, quality, finance availability, delivery speed, service and support, innovation, distribution network, breadth of product and service offerings and brand name recognition. GEHC is a leading competitor in this market.

In the IT segment, our primary competitors in the healthcare IT VAR business are Agfa Healthcare, McKesson, Philips, Carestream Health and other independent software providers. Key competitive factors are brand recognition, quality, radiology workflow solutions, scalability and service and support capability. We are able to capitalize on the brand recognition of GEHC, a leader in healthcare software solutions. In the managed network services business our primary competition includes, but is not limited to, organizations whom have a presence in most of the major markets for the following products and services; network services, managed services, security services and healthcare applications. Several of those competitors are; Verizon, AT&T, CenturyLink, IBM and Cisco Resellers, Siemens, Epic, small regional IT integrators and large company internal IT departments.

Though we believe that we are the industry leader of external counterpulsation technology, our competitors in our EECP® business are Renew Group Pte. Ltd and Scottcare Cardiovascular Solutions in the United States, and internationally PSK-Health Sci-Tech Development Co., Ltd., with which we have formed a joint venture to co-market external counterpulsation products in the international market.

In the ambulatory monitoring system business, there are numerous competitors of various size and strength. The Biox™ series is among few from China with CE Mark certification, CFDA approval, US FDA clearances as well as Health Canada listing, which are among the most important qualifications to market and sell the products around the world.

Regulations on Medical Devices

As a medical device manufacturer and marketer, we are subject to extensive regulation by numerous government regulatory agencies, including the U. S. FDA and similar foreign agencies. We are required to comply with applicable laws, regulations and standards governing the development, preclinical and clinical testing, manufacturing, quality testing, labeling, promotion, import, export, and distribution of our medical devices.

Compliance with Regulations in the United States

The Company has received appropriate US FDA premarket notification (510(k)) clearance for all its products marketed and sold in the United States, including all EECP® therapy systems and Biox™ ambulatory monitoring systems and analysis and report software. We continue to seek US FDA clearance or approval for new products prior to their introduction to the US market.

We are subject to other US FDA regulations that apply prior to and after a product is commercially released. We also are subject to periodic and random inspections by the US FDA for compliance with the current Good Manufacturing Practice, or cGMP, requirements and Quality System Regulation. The US FDA also enforces post-marketing controls that include the requirement to submit medical device reports to the agency when a manufacturer becomes aware of information suggesting that any adverse events are related to its marketed products. The FDA relies on medical device reports to identify product problems and utilizes these reports to determine, among other things, whether it should exercise its enforcement powers. The FDA also may require post-market surveillance studies for specified devices.

We are subject to the Federal Food, Drug, and Cosmetic Act's, or FDCA's, general controls, including establishment registration, device listing, and labeling requirements.

The advertising of our products is subject to regulation by the Federal Trade Commission, or FTC. The FTC Act prohibits unfair or deceptive acts or practices in or affecting commerce. Violations of the FTC Act, such as failure to have substantiation for product claims, would subject us to a variety of enforcement actions, including compulsory process, cease and desist orders and injunctions, which can require, among other things, limits on advertising, corrective advertising, consumer redress and restitution, as well as substantial fines or other penalties.

As a medical device sales channel partner and product reseller to healthcare facilities, we are subject to various federal, state and local laws targeting fraud and abuse in the healthcare industry, including anti-kickback and false claims laws.

Foreign Regulation

In most countries to which we seek to export our medical devices, a local regulatory clearance must be obtained. The regulatory review process varies from country to country and can be complex, costly, uncertain, and time-consuming. Vasomedical's medical devices, including EECP® systems and Biox™ series products, are all manufactured in accordance with ISO 13485, the international standard for medical devices. All our current medical devices have obtained necessary clearances or approvals prior to their release in the appropriate jurisdictions, including CE marking certification for European Union countries, China FDA (CFDA) approval for mainland China, Korean FDA (KFDA) approval for South Korea, Agencia Nacional de Vigilancia Sanitaria (ANVISA) approval for Brazil, and Health Canada license for Canada.

We are also subject to audits by organizations authorized by foreign countries to determine compliance with laws, regulations and standards that apply to the commercialization of our products in those markets. Examples include auditing by a European Union Notified Body organization (authorized by a member state's Competent Authority) to determine conformity with the Medical Device Directives (MDD) and by an organization authorized by the Canadian government to determine conformity with the Canadian Medical Devices Regulations (CMDR).

Patient Privacy

Federal and state laws protect the confidentiality of certain patient health information, including patient records, and restrict the use and disclosure of that protected information. The U.S. Department of Health and Human Services (HHS) published patient privacy rules under the Health Insurance Portability and Accountability Act of 1996 (HIPAA privacy rule) and the regulation was finalized in October 2002. Currently, the HIPAA privacy rule affects us only indirectly in that patient data that we access, collect and analyze may include protected health information. Additionally, we have signed some Business Associate Agreements with Covered Entities that contractually bind us to protect private health information, consistent with the HIPAA privacy rule's requirements. We do not expect the costs and impact of the HIPAA privacy rule to be material to our business.

Regulations in the IT Business

As a reseller of telecommunication services and network solutions provider, our products and services are subject to federal, state and local regulations. These regulations govern, in part, our rates and the way we conduct our business, including the requirement to offer telecommunications services pursuant to nondiscriminatory rates, terms, and conditions, the obligation to safeguard the confidentiality of customer proprietary network information, as well as the obligation to maintain specialized records and file reports with the Federal Communications Commission and state regulatory authorities. While we believe we are in compliance with laws and regulations in jurisdictions where we do business, we must continue to monitor and assess our compliance.

The Federal Communications Commission ("FCC") exercises jurisdiction over services and regulates interstate and international communications in all 50 states, the District of Columbia and U.S territories. As an independent U.S. government agency overseen by Congress, the commission is the United States' primary authority for communications laws, regulation and technological innovation.

We maintain Certificates of Public Convenience and Necessity in all 50 states which enable us to provide services within each state. We are therefore subject to regulation from the Public Utility Commissions in each state.

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Strategic Plan and Objectives

Our short- and long-term plans for the growth of the Company and to increase stockholder value are:

- Continue to expand our product and service offerings as well as market penetration of our healthcare IT business.
- Expand our managed network services business into the healthcare market through our healthcare IT business and through the introduction of additional functionality to our existing capabilities.
- Build our brand name in the healthcare provision middle market with the goal of establishing our technology platform and managed services methodology as the standard for secure, efficient use of equipment and applications ecosystems.
- Maintain and improve business performance in our professional sales service segment by increasing market penetration of the GE Healthcare product modalities we represent, and possibly building new teams to represent other vendors.
- Maintain and grow our equipment business by continuing to align the cost structure with revenue growth and increasing our efforts to grow international sales of all our device offerings.
- Continue to seek partnership and acquisition opportunities.

The above-listed strategic objectives are forward-looking statements. We review, modify and change our strategic objectives from time to time based upon changing business conditions. There can be no assurance that we will be able to achieve our strategic objectives and, even if these results are achieved, risks and uncertainties could cause actual results to differ materially from anticipated results. Financial resource availability may reduce our ability to achieve these strategic objectives. Please see the section of this Form 10-K entitled "Risk Factors" for a description of certain risks, among others that may cause our actual results to vary from the forward-looking statements.

Intellectual Properties

In addition to other methods of protecting our proprietary technology, know-how and show-how as well as trade secrets, we pursue a policy of seeking patent protection, both in the US and abroad, for our proprietary technologies including those in EECP®, Biox™ and MobiCare™ products.

We own eleven US patents including eight utility patents and three design patents that expire at various times through 2023. We will from time to time file other patent applications regarding specific enhancements to the current EECP® models, future generation products, and methods of treatment in the future. Moreover, trademarks have been registered for the names "EECP", "AngioNew", "Natural Bypass", "Vasomedical", "Vasomedical EECP", "VasoGlobal", "VasoSolutions", "VasoHealthcare".

Through our China-based subsidiaries, we own fourteen invention, utility and design patents that expire at various time through 2024, as well as twelve software copyright certificates in China related to ECG and blood pressure data analysis and reporting. We also have eight registered trademarks in China for our products.

Through our Netwolves subsidiary we hold a patent for Secure and Remote Monitoring Management ("SRM") and we hold trademarks "NetWolves", "SRM", and "Wolfpac".

There can be no assurance that our patents will not be violated or that any issued patents will provide protection that has commercial significance. As with any patented technology, litigation could be necessary to protect our patent position. Such litigation can be costly and time-consuming, and there can be no assurance that we will be successful.

Employees

As of December 31, 2015, we employed 281 full-time persons, of which 17 are employed through our facility in Plainview, New York, 82 through VasoHealthcare, 10 through VasoHealthcare IT, 103 through our Netwolves operations, and 69 in our China operations. None of our employees are represented by a labor union. We believe that our employee relations are good.

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The Company also uses several part-time employees and consultants from time to time for various purposes.

Manufacturing

The Company conducts its manufacturing activities primarily through LET and Biox facilities in China, while maintaining certain manufacturing capability in the Plainview, NY location to satisfy certain domestic and international needs for the EECP® systems. LET manufactures EECP® systems and Biox manufactures ambulatory monitoring devices and other medical devices.

All manufacturing operations are conducted under the cGMP requirements as set forth in the FDA Quality System Regulation as well as ISO 13485 standard, the international quality standard for medical device manufacturers. We are also certified to conform to full quality assurance system requirements of the EU Medical Device Directive and can apply CE marking to all of our current product models. Lastly, we are certified to comply with the requirements of the Canadian Medical Device Regulations (CMDR). All these regulations and standards subject us to inspections to verify compliance and require us to maintain documentation and controls for the manufacturing and quality activities.

We believe our manufacturing capacity and warehouse facility are adequate to meet the current and immediately foreseeable future demand for the production of our medical devices. We believe our suppliers of the other medical devices we distribute or represent are capable of meeting our demand for the foreseeable future.

ITEM 1A - RISK FACTORS

Investing in our common stock involves risk. You should carefully consider the following information about these risks together with the other information contained in this Annual Report on Form 10-K. If any of the following risks actually occur, our business could be harmed. This could cause the price of our stock to decline, and you may lose part or all of your investment.

Financial Risks

Achieving profitable operations is dependent on several factors.

Our ability to achieve and sustain profitability is dependent on many factors, primarily being the sufficient and timely generation and recognition of revenue in our professional sales services segment, attaining profitability in our IT segment, the success of our marketing, sales and cost reduction efforts in the equipment segment, as well as the success of our other strategic initiatives, including our China acquisitions.

Risks Related to Our Business

We currently derive a significant amount of our revenue from our agreement with GEHC.

On May 19, 2010, we signed a sales representation agreement with GEHC. Under the GEHC Agreement, we have 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 had an initial term of three years commencing July 1, 2010 and in 2012 was extended for two additional years to June 30, 2015. In December 2014, the agreement was extended again through December 31, 2018, subject to earlier termination under certain circumstances including the right by GEHC to terminate without cause with certain conditions on or after July 1, 2017.

A significant amount of our revenue and net income arise from activities under this contract. Moreover, our growth depends partially on the territories, customer segments and product modalities assigned to us by GEHC, and thus relies on our ability to demonstrate our added value as a channel partner, and maintaining a positive relationship with

GEHC. There is no assurance that the agreement will be renewed before it expires or terminated prior to its expiration pursuant to its termination provisions. Should GEHC terminate or not renew the agreement, it would have a material adverse effect on our financial condition and results of operations.

We face competition from other companies and technologies.

In all segments of our business we compete with other companies that market technologies, products and services in the global marketplace. We do not know whether these companies, or other potential competitors who may succeed in developing technologies, products or services that are more efficient or effective than those offered by us, and that would render our technology and existing products obsolete or non-competitive. Potential new competitors may also have substantially greater financial, manufacturing and marketing resources than those possessed by us. In addition, other technologies or products may be developed that have an entirely different approach or means of accomplishing the intended purpose of our products. Accordingly, the life cycles of our products are difficult to estimate. To compete successfully, we must keep pace with technological advancements, respond to evolving consumer requirements and achieve market acceptance.

We depend on management and other key personnel.

We are dependent on a limited number of key management and technical personnel. The loss of one or more of our key employees may harm our business if we are unable to identify other individuals to provide us with similar services. We do not maintain "key person" insurance on any of our employees. In addition, our success depends upon our ability to attract and retain additional highly qualified management, sales, IT, manufacturing and research and development personnel in our various operations. The competition for IT personnel is intense.

We may not continue to receive necessary FDA clearances or approvals, which could hinder our ability to market and sell certain products.

If we modify our medical devices and the modifications significantly affect safety or effectiveness, or if we make a change to the intended use, we will be required to submit a new premarket notification (510(k)) or premarket approval (PMA) application to FDA. We would not be able to market the modified device in the U.S. until FDA issues a clearance for the 510(k).

If we offer new products that require 510(k) clearance or a PMA, we will not be able to commercially distribute those products until we receive such clearance or approval. Regulatory agency approval or clearance for a product may not be received or may entail limitations on the device's indications for use that could limit the potential market for the product. Delays in receipt of, or failure to obtain or maintain, regulatory clearances and approvals, could delay or prevent our ability to market or distribute our products. Such delays could have a material adverse effect on our equipment business.

If we are unable to comply with applicable governmental regulations, we may not be able to continue certain of our operations.

We also must comply with current Good Manufacturing Practice requirements as set forth in the Quality System Regulation to receive US FDA approval to market new products and to continue to market current products. Most states also have similar regulatory and enforcement authority for medical devices.

Our operations in China are also subject to the laws of the People's Republic of China with which we must be in compliance in order to conduct these operations.

We are subject to various federal, state and local laws targeting fraud and abuse in the healthcare industry, including anti-kickback and false claims laws.

We cannot predict the nature of any future laws, regulations, interpretations, or applications, nor can we predict what effect additional governmental regulations or administrative orders, either domestically or internationally, when and if

promulgated, would have on our business in the future. We may be slow to adapt, or we may never adapt to changes in existing requirements or adoption of new requirements or policies. We may incur significant costs to comply with laws and regulations in the future or compliance with laws or regulations may create an unsustainable burden on our business.

We have foreign operations and are subject to the associated risks of doing business in foreign countries.

The Company continues to have operations in China. Operating internationally involves additional risks relating to such things as currency exchange rates, different legal and regulatory environments, political, economic risks relating to the stability or predictability of foreign governments, differences in the manner in which different cultures do business, difficulties in staffing and managing foreign operations, differences in financial reporting, operating difficulties, and other factors. The occurrence of any of these risks, if severe enough, could have a material adverse effect on the consolidated financial position, results of operations and cash flows of the Company.

Commercial law is still developing in China and there are limited legal precedents to follow in commercial transactions. There are many tax jurisdictions each of which may have changing tax laws. Applicable taxes include value added taxes ("VAT"), corporate income tax, and social (payroll) taxes. Regulations are often unclear. Tax declarations (reports) are subject to review and taxing authorities may impose fines, penalties and interest. These facts create risks for our operations in China.

We depend on several suppliers for the supply of certain products.

As a GEHC channel partner, we could be negatively impacted by interruptions or delays to equipment installations, production and quality issues, and any customer concerns related to GEHC. With respect to our proprietary medical products we now manufacture our own products primarily through our China based facilities, and we depend on certain independent suppliers for parts, components and certain finished goods.

We may not have adequate intellectual property protection.

Our patents and proprietary technology may not be able to prevent competition by others. The validity and breadth of claims in technology patents involve complex legal and factual questions. Future patent applications may not be issued, the scope of any patent protection may not exclude competitors, and our patents may not provide competitive advantages to us. Our patents may be found to be invalid and other companies may claim rights in or ownership of the patents and other proprietary rights held or licensed by us. Also, our existing patents may not cover products that we develop in the future. Moreover, when our patents expire, the inventions will enter the public domain. There can be no assurance that our patents will not be violated or that any issued patents will provide protection that has commercial significance. Litigation may be necessary to protect our patent position. Such litigation may be costly and time-consuming, and there can be no assurance that we will be successful in such litigation.

The loss or violation of certain of our patents and trademarks could have a material adverse effect upon our business.

Since patent applications in the United States are maintained in secrecy until such patent applications are issued, our current product development may infringe patents that may be issued to others. If our products were found to infringe patents held by competitors, we may have to modify our products to avoid infringement, and it is possible that our modified products would not be commercially successful.

Risks Related to Our Industries

Our growth could suffer if the markets into which we sell products decline, do not grow as anticipated or experience cyclicality.

Our growth depends in part on the growth of the IT and healthcare markets which we serve, in our professional sales services segment, our quarterly sales and profits depend signifcantly on the volume and timing of orders installed during the quarter, and the installation of such orders is difficult to forecast. Product demand is dependent upon the customer's capital spending budget as well as government funding policies, and matters of public policy as well as

product and economic cycles that can affect the spending decisions of these entities. These factors could adversely affect our growth, financial position, and results of operations.

Technological change is difficult to predict and to manage.

We face the challenges that are typically faced by companies in the IT and medical device fields. Our products and services may require substantial development efforts and compliance with governmental clearance or approval requirements. We may encounter unforeseen technological or scientific problems that force abandonment or substantial change in the development of a specific product or process.

We are subject to product liability claims and product recalls that may not be covered by insurance.

The nature of our manufacturing operations exposes us to risks of product liability claims and product recalls. Medical devices as complex as ours frequently experience errors or failures, especially when first introduced or when new versions are released.

We currently maintain product liability insurance at $5,000,000 per occurrence and $6,000,000 in the aggregate. Our product liability insurance may not be adequate. In the future, insurance coverage may not be available on commercially reasonable terms, or at all. In addition, product liability claims or product recalls could damage our reputation even if we have adequate insurance coverage.

We do not know the effects of healthcare reform proposals.

The healthcare industry is undergoing fundamental changes resulting from political, economic and regulatory influences. In the United States, the Affordable Care Act is designed to provide increased access to healthcare for the uninsured, control the escalation of healthcare expenditures within the economy and use healthcare reimbursement policies to balance the federal budget.

We expect that the United States Congress and state legislatures will continue to review and assess the Affordable Care Act as well as various healthcare reform proposals, and public debate of these issues will likely continue. There have been, and we expect that there will continue to be, a number of federal and state proposals to constrain expenditures for medical products and services, which may affect payments for products such as ours. We cannot predict which, if any of such reform proposals will be adopted and when they might be effective, or the effect these proposals may have on our business. Other countries also are considering health reform. Significant changes in healthcare systems could have a substantial impact on the manner in which we conduct our business and could require us to revise our strategies.

Risks Related to our Securities

The application of the "penny stock" rules could adversely affect the market price of our common stock and increase your transaction costs to sell those shares.

As long as the trading price of our common shares is below $5 per share, the open-market trading of our common shares will be subject to the "penny stock" rules. The "penny stock" rules impose additional sales practice requirements on broker-dealers who sell securities to persons other than established customers and accredited investors (generally those with assets in excess of $1,000,000 or annual income exceeding $200,000 or $300,000 together with their spouse). For transactions covered by these rules, the broker-dealer must make a special suitability determination for the purchase of securities and have received the purchaser's written consent to the transaction before the purchase. Additionally, for any transaction involving a penny stock, unless exempt, the broker-dealer must deliver, before the transaction, a disclosure schedule prescribed by the Securities and Exchange Commission relating to the penny stock market. The broker-dealer also must disclose the commissions payable to both the broker-dealer and the registered representative and current quotations for the securities. Finally, monthly statements must be sent disclosing recent price information on the limited market in penny stocks. These additional burdens imposed on

broker-dealers restrict the ability and decrease the willingness of broker-dealers to sell our common shares, which may result in decreased liquidity for our common shares and increased transaction costs for sales and purchases of our common shares as compared to other securities.

Our common stock is subject to price volatility.

The market price of our common stock historically has been and may continue to be highly volatile. Our stock price could be subject to wide fluctuations in response to various factors beyond our control, including, but not limited to:

·medical reimbursement;
·quarterly variations in operating results;
·announcements of technological innovations, new products or pricing by our competitors;
·the timing of patent and regulatory approvals;
·the timing and extent of technological advancements;
·the sales of our common stock by affiliates or other shareholders with large holdings; and
·general market conditions.

Our future operating results may fall below the expectations of securities industry analysts or investors. Any such shortfall could result in a significant decline in the market price of our common stock. In addition, the stock market has experienced significant price and volume fluctuations that have affected the market price of the stock of many medical device companies and that often have been unrelated to the operating performance of such companies. These broad market fluctuations may directly influence the market price of our common stock.

We do not intend to pay dividends in the foreseeable future.

We do not intend to pay any cash dividends on our common stock in the foreseeable future.

Additional Information

We are subject to the reporting requirements under the Securities Exchange Act of 1934 and are required to file reports and information with the Securities and Exchange Commission (SEC), including reports on the following forms: annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports files or furnished pursuant to Section 13(a) or 15(d) of the Securities Act of 1934.

ITEM 2 – PROPERTIES

In September 2015, we relocated our headquarters to an 8,700 square foot facility at 137 Commercial Street, Plainview, New York 11803, under a lease with a term that expires on September 15, 2022 and with a base annual rental of approximately $65,000. The Company's NetWolves unit leases an 11,700 square foot facility in Tampa, Florida, under a lease expiring in May 2016 with an annual rental of approximately $119,000. The Company is evaluating possible renewal options and believes sufficient space is available at similar cost in the area. We believe that our current facilities are adequate for foreseeable current and future needs.

We also lease approximately 1,500 square feet of office space in New York City under a lease that expires on May 31, 2017. The annual rent and utility charge for this lease is approximately $41,000.

We lease our engineering and production facilities in China. Specifically, we lease approximately 12,750 square feet under a lease expiring in December 2020 at an aggregate annual cost of approximately $54,000 in Wuxi, China and approximately 11,000 square feet under a lease that expires in April 2016 at an annual cost of approximately $33,000 in Foshan, China. Both leases are renewable upon expiration.

PART II

ITEM 5 – MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock currently trades on the OTC Market under the symbol VASO. The number of record holders of common stock as of March 25, 2016, was approximately 930, which does not include approximately 8,500 beneficial owners of shares held in the name of brokers or other nominees. The table below sets forth the range of high and low trade prices of the common stock for the fiscal periods specified.

	Year ended December 31, 2015		Year ended December 31, 2014	
	High	Low	High	Low
First quarter	$0.20	$0.16	$0.49	$0.31
Second quarter	$0.20	$0.16	$0.36	$0.25
Third quarter	$0.22	$0.16	$0.32	$0.16
Fourth quarter	$0.20	$0.16	$0.25	$0.16

The last bid price of the Company's common stock on March 25, 2016, was $0.18 per share.

Dividend Policy

We have never paid any cash dividends on our common stock and do not intend to pay cash dividends in the foreseeable future.

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

This Management's Discussion and Analysis of Financial Condition and Results of Operations contains descriptions of our expectations regarding future trends affecting our business. These forward looking statements and other forward-looking statements made elsewhere in this document are made under the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Please read the section titled "Risk Factors" in "Item One – Business" to review certain conditions, among others, which we believe could cause results to differ materially from those contemplated by the forward-looking statements.

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 IT and healthcare; continuation of the GEHC agreements; the impact of competitive technology 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; and the risk factors reported from time to time in the Company's SEC reports. The Company undertakes no obligation to update forward-looking statements as a result of future events or developments.

The following discussion should be read in conjunction with the financial statements and notes thereto included in this Annual Report on Form 10-K.

Overview

Vasomedical, Inc. ("Vasomedical") was incorporated in Delaware in July 1987. We principally operate in three distinct business segments in the healthcare equipment and information technology industries. We manage and evaluate our operations, and report our financial results, through these three business segments.

- IT segment, operating through a wholly-owned subsidiary VasoTechnology, Inc., primarily focuses on healthcare IT and managed network technology services;

- Professional sales service segment, operating through a wholly-owned subsidiary Vaso Diagnostics, Inc. d/b/a VasoHealthcare, primarily focuses on the sale of healthcare capital equipment for large OEMs into the health provider middle market; and

- Equipment segment, operating through wholly-owned subsidiaries Vasomedical Global Corp. and Vasomedical Solutions, Inc., primarily focuses on the design, manufacture, sale and service of proprietary medical devices.

VasoTechnology

VasoTechnology, Inc. was formed in May 2015, at the time the Company acquired all of the assets of NetWolves, LLC and its affiliates, including the membership interests in NetWolves Network Services LLC (collectively, "NetWolves"), to address a major issue facing healthcare IT industry. It currently consists of a managed network and security service division and a healthcare IT application VAR (value added reseller) division. Its current offering includes:

- Managed diagnostic imaging applications (national channel partner of GEHC IT).
- Managed network infrastructure (routers, switches and other core equipment).
- Managed network transport (FCC licensed carrier reselling 175+ facility partners).
- Managed security services (IBM's first security white label partner).

VasoTechnology uses a combination of proprietary technology, methodology and best-in-class third-party applications to deliver its value proposition.

VasoHealthcare

VasoHealthcare commenced operations in 2010, in conjunction with the Company's execution of its exclusive sales representation agreement with General Electric Healthcare ("GEHC"), which is the healthcare business division of the General Electric Company ("GE"), to exploit the sale of certain healthcare capital equipment in the health provider middle market. Sales of GEHC equipment by the Company have grown significantly since then.

VasoHealthcare's current offering consists of:

- GEHC diagnostic imaging capital equipment.
- GEHC service agreements.
- GEHC and third party financial services.

VasoHealthcare has built a team of approximately 90 highly experienced sales professionals who utilize highly focused sales management and analytic tools to manage the complete sales process and to increase market penetration.

Vasomedical Global and Vasomedical Solutions

Vasomedical Global was formed in 2011 to combine and coordinate the various design, development manufacturing, and sales operations of medical devices acquired by the Company. These devices primarily consist of cardiovascular diagnostic and therapeutic systems. Its current offering consists of:

- Biox™ series Holter monitors and ambulatory blood pressure recorders .

- ARCS™ series analysis, reporting and communication software for physiological signals such as ECG and blood pressure.
- MobiCare™ multi-parameter wireless vital-sign monitoring system.
- EECP® therapy systems, used for non-invasive, outpatient treatment for ischemic heart disease.

This segment uses its extensive cardiovascular device knowledge coupled with its significant engineering resources to cost effectively create and market its proprietary technology. It works with a global distribution network of channel partners, as well as a global joint venture arrangement, to sell its products.

Strategic Plan and Objectives

Our short- and long-term plans for the growth of the Company and to increase stockholder value are:

- Continue to expand our product and service offerings as well as market penetration of our healthcare IT business.
- Expand our managed network services business into the healthcare market through our healthcare IT business and through the introduction of additional functionality to our existing capabilities.
- Build our brand name in the healthcare provision middle market with the goal of establishing our technology platform and managed services methodology as the standard for secure, efficient use of equipment and applications ecosystems.
- Maintain and improve business performance in our professional sales service segment by increasing market penetration of the GE Healthcare product modalities we represent, and possibly building new teams to represent other vendors.
- Maintain and grow our equipment business by continuing to align the cost structure with revenue growth and increasing our efforts to grow international sales of all our device offerings.
- Continue to seek partnership and acquisition opportunities.

Results of Operations – For the Years Ended December 31, 2015 and 2014

Total revenues increased by $22,128,000, or 63%, to $57,082,000 in the year ended December 31, 2015, from $34,954,000 in the year ended December 31, 2014. We reported net income of $3,823,000 for the year ended December 31, 2015 as compared to net income of $1,128,000 for the year ended December 31, 2014, an increase of $2,695,000 or 239%. Our net income was $0.02 per basic and diluted common share for the year ended December 31, 2015 as compared to net income of $0.01 per basic and diluted common share for the year ended December 31, 2014.

Revenues

Commission revenues in the professional sales service segment (formerly the "sales representation" segment) increased by $1,348,000, or 4%, to $31,584,000 in the year ended December 31, 2015, as compared to $30,236,000 in the year ended December 31, 2014. The increase was primarily due to higher volume of GEHC equipment delivery in 2015, partially offset by lower blended commission rates for the equipment delivered in 2015. As discussed in Note B to the financial statements, the Company defers recognition of commission revenue until the underlying equipment is delivered. As of December 31, 2015, the Company recorded on its Consolidated Balance Sheet $17,369,000 of deferred commission revenue, of which $8,525,000 is long-term, compared to $21,155,000 of deferred commission revenue at December 31, 2014, of which $12,006,000 was long-term, a decrease of $3,786,000 or 18%. The decrease in deferred revenue is due principally to the increase in equipment deliveries and lower total orders booked during the year.

Revenue in the IT segment was $21,149,000 for the year ended December 31, 2015 as compared to $48,000 for the prior year, an increase of $21,101,000, of which $20,661,000 was attributable to the inclusion of seven months of NetWolves operations, which was acquired on May 29, 2015, and $440,000 year-over-year growth in VHC-IT revenues. At December 31, 2015 VHC-IT had an order backlog exceeding $3,000,000, which we expect to be substantially delivered in 2016 and 2017.

Revenue in our equipment segment decreased 7% to $4,349,000 for the year ended December 31, 2015 from $4,670,000 for the year ended December 31, 2014. Equipment segment revenue from equipment sales decreased by $272,000, or 8%, to $2,961,000 for the year ended December 31, 2015 as compared to $3,233,000 for the year ended December 31, 2014. The decrease in equipment sales is due primarily to a $255,000 decrease in EECP® sales, caused by lower deliveries and lower average selling prices. We anticipate that EECP® sales will improve in foreign markets as our VSK joint venture, which began operations in 2015, expands into new international markets. As of December 31, 2015, the Company recorded on its Consolidated Balance Sheet $1,147,000 of deferred revenue, of which $511,000 is long-term, compared to $1,377,000 of deferred revenue at December 31, 2014, of which $644,000 was long-term, a decrease of $230,000 or 17%. The decrease in deferred revenue is due principally to lower volume of service contracts sold during the year.

Equipment segment revenue from equipment rentals and services decreased 3% to $1,388,000 in the year ended December 31, 2015 from $1,437,000 in the year ended December 31, 2014. Revenue from equipment rentals and services represented 32% of total Equipment segment revenue in the year ended December 31, 2015 and 31% in the year ended December 31, 2014. The decrease in revenue generated from equipment rentals and services is due primarily to decreased contract product development and service contract revenues, partially offset by higher field service revenues.

Gross Profit

The Company recorded gross profit of $35,367,000, or 62% of revenue, for the year ended December 31, 2015 compared to $25,192,000, or 72% of revenue, for the year ended December 31, 2014. The increase of $10,175,000, or 40%, was due primarily to a $8,592,000 increase in the IT segment, arising mainly from the inclusion of seven months of NetWolves operations, and a $2,281,000 increase in the professional sales service segment, driven by both higher revenues and gross profit rates, partially offset by $698,000 lower gross profit in the equipment segment resulting from a mix of lower revenues and higher gross profit rates.

Professional sales service segment gross profit was $24,532,000, or 78% of professional sales service segment revenues, for the year ended December 31, 2015, an increase of $2,281,000, or 10%, from segment gross profit of $22,251,000, or 74% of segment revenue, for the year ended December 31, 2014. The increase in gross profit was due primarily to higher recognized revenue in 2015 as a result of an increase in equipment delivery volume partially offset by lower commission rates. Cost of commissions decreased by $933,000, or 12%, to $7,052,000 for the year ended December 31, 2015, as compared to cost of commissions of $7,985,000 in 2014. The decrease is due to lower commission expense rates. Cost of commissions 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.

IT segment gross profit increased to $8,613,000, or 41% of segment revenues, for the year ended December 31, 2015 as compared to $21,000 in the prior year, an increase of $8,592,000, of which $8,539,000 was attributable to the inclusion of seven months of NetWolves operations and $74,000 was attributable to VHC-IT.

Equipment segment gross profit decreased to $2,222,000, or 51% of equipment segment revenues, for the year ended December 31, 2015 compared to $2,920,000, or 63% of equipment segment revenues, for the year ended December 31, 2014 due to lower sales volume, lower average selling prices and write-off of excess inventory, partially offset by the favorable impact on gross profit margins of our China-based operations. Equipment segment gross profits are dependent on a number of factors including the mix of products sold, their respective models and average selling prices, the ongoing costs of servicing EECP® systems, as well as certain fixed period costs, including facilities, payroll and insurance.

Operating Income

Operating income was $3,939,000 for the year ended December 31, 2015 compared to $1,063,000 for the year ended December 31, 2014, an improvement of $2,876,000, or 271%. The increase was primarily attributable to the increase in operating income in the professional sales service segment from $5,997,000 in the year ended December 31, 2014 to $10,024,000 in that segment in the year ended December 31, 2015. The 2015 professional sales service segment operating income reflected the impact of both higher gross profit and lower operating costs. IT segment operating loss increased to $1,930,000 for the year ended December 31, 2015 from $539,000 for the prior year, an increase of $1,391,000. The increase was primarily attributable to $1,282,000 higher operating losses in the VHC IT VAR business, primarily due to sales expenses incurred in building its order backlog for future delivery. The VAR business is still in its early stages of growth; however, we anticipate that as the backlog increases and converts to revenue we will see significant improvement in operating performance. Equipment segment operating loss in the year ended December 31, 2015 was $2,444,000, as compared to an operating loss of $2,828,000 in the year ended December 31, 2014. The decrease in the equipment segment operating loss was primarily due to lower operating expenses resulting from our cost reduction efforts, partially offset by lower gross profit. We continue to implement additional cost reductions in the equipment segment.

Selling, general and administrative (SG&A) expenses for the years ended December 31, 2015 and 2014 were $30,913,000, or 54% of revenues, and $23,326,000, or 67% of revenues, respectively, reflecting an increase of

$7,587,000 or approximately 33%. The increase in SG&A expenditures in the year ended December 31, 2015 resulted primarily from a $9,981,000 increase in the IT segment, of which $8,646,000 was attributable to the inclusion of seven months of NetWolves costs and higher corporate expenses associated with the NetWolves acquisition, partially offset by lower sales and marketing costs in the equipment and professional sales service segments.

Research and development (R&D) expenses of $515,000, or 1% of revenues (or 12% of equipment segment revenues), for the year ended December 31, 2015 decreased by $288,000, or 36%, from $803,000, or 2% of revenues (or 17% of equipment segment revenues), for the year ended December 31, 2014. The decrease is primarily attributable to lower clinical grant and new product submission costs, as well as lower new product development costs.

Adjusted EBITDA

We define Adjusted EBITDA (earnings before interest, taxes, depreciation and amortization), which is a non-GAAP financial measure, as net income, plus interest expense, tax expense, depreciation and amortization, and non-cash expenses for share-based compensation. Adjusted EBITDA is a metric that is used by the investment community for comparative and valuation purposes. We disclose this metric in order to support and facilitate the dialogue with research analysts and investors.

Adjusted EBITDA is not a measure of financial performance under accounting principles generally accepted in the United States ("GAAP") and should not be considered a substitute for operating income, which we consider to be the most directly comparable GAAP measure. Adjusted EBITDA has limitations as an analytical tool, and when assessing our operating performance, you should not consider Adjusted EBITDA in isolation, or as a substitute for net income or other consolidated income statement data prepared in accordance with GAAP. Other companies may calculate Adjusted EBITDA differently than we do, limiting its usefulness as a comparative measure.

A reconciliation of net income to Adjusted EBITDA is set forth below:

	(in thousands) Year ended December 31,	
	2015	2014
Net income	$3,823	$1,128
Interest (income) expense	160	(207)
Income tax (benefit) expense	(44)	127
Depreciation and amortization	1,559	467
Share-based compensation	342	390
Adjusted EBITDA	$5,840	$1,905

Adjusted EBITDA increased by $3,935,000, or 205%, to $5,840,000 in the year ended December 31, 2015 from $1,905,000 in the year ended December 31, 2014. The increase was primarily attributable to higher fixed asset depreciation in the IT segment and amortization of intangibles associated with the NetWolves acquisition in May 2015, higher technology intangible amortization in the equipment segment associated with the Genwell acquisition in August 2014, as well as higher software amortization in the professional sales service segment, minimally offset by lower share-based compensation expense.

Other Income (Expense), Net

Other income (expense), net for the year ended December 31, 2015 and 2014, was $(160,000) and $192,000, respectively, an increase in net expense of $352,000. The increase was due primarily to $429,000 higher interest expense associated with the note issued in relation to the NetWolves acquisition and with NetWolves' debt that the Company assumed through the acquisition.

Income Tax Benefit (Expense), Net

During the year ended December 31, 2015, we recorded income tax benefit of $44,000, as compared to income tax expense of $127,000 in the year ended December 31, 2014. The Company utilized $5.0 million and $3.0 in net operating loss carryforwards for the years ended December 31, 2015 and 2014, respectively. The change from income tax expense in 2014 to income tax benefit in 2015 arose primarily due to the release of $560,000 in deferred tax asset valuation allowance, partially offset by $226,000 higher tax expense related to deferred tax liabilities arising from goodwill generated by the NetWolves acquisition, as well as higher state income taxes and federal alternative minimum taxes.

Ultimate realization of any or all of the deferred tax assets is not assured due to significant uncertainties and material assumptions associated with estimates of future taxable income during the carry-forward period. The Company currently has significant deferred tax assets. During the year ended December 31, 2015, the Company reviewed previous positive and negative evidence and also reviewed its expected taxable income for future periods and concluded it is more likely than not that approximately $560,000 of the tax benefit related to net operating loss carryforwards will be utilized, and, accordingly, has reduced the valuation allowance by $560,000. It remains uncertain whether the Company will generate sufficient taxable income to completely utilize its net operating loss carryforwards.

Liquidity and Capital Resources

Cash and Cash Flow – For the year ended December 31, 2015

We have financed our operations, including the NetWolves acquisition, from working capital and the proceeds from notes issued to MedTechnology Investments, LLC ("MedTech", see Item 13). At December 31, 2015, we had cash and cash equivalents of $2,160,000, short-term investments of $38,000 and negative working capital of $3,696,000. $7,228,000 in negative working capital at December 31, 2015 is attributable to the net balance of deferred commission expense and deferred revenue. These are non-cash expense and revenue items and have no impact on future cash flows. At March 26, 2015 the Company's cash and cash equivalents were approximately $5.1 million.

Cash provided by operating activities was $6,520,000 during the year ended December 31, 2015, which consisted of net income after non-cash adjustments of $5,492,000 and cash provided by changes in operating assets and liabilities of $1,028,000. The changes in the account balances primarily reflect decreases in accounts and other receivables and other assets of $4,977,000 and $1,793,000, respectively, partially offset by decreases in deferred revenue and accrued expenses and other liabilities of $4,016,000 and $1,401,000, respectively. These changes in account balances are due mainly to the operations of our Professional Sales Service segment.

Cash used in investing activities during the year ended December 31, 2015 was $18,258,000, of which $17,267,000, net of cash acquired, was used for the acquisition of NetWolves, $100,000 was invested in the VSK joint venture, and $893,000 was used for the purchase of equipment and software.

Cash provided by financing activities during the year ended December 31, 2015 was $4,800,000, through the issuance of notes to MedTech and $47,000 in borrowings on our line of credit, partially offset by $146,000 in repayments of notes issued for equipment purchases.

Liquidity

We expect to continue to be profitable and generate positive cash flow through our existing operations. We will continue to pursue acquisitions and partnership opportunities in the international and domestic markets and will look to expand our business in all segments.

Off-Balance Sheet Arrangements

We do not participate in transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities (SPES), which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As of December 31, 2015, we are not involved in any unconsolidated SPES or other off-balance sheet arrangements.

Effects of Inflation

We believe that inflation and changing prices over the past two years have not had a significant impact on our revenue or on our results of operations.

Critical Accounting Policies and Estimates

Note B of the Notes to Consolidated Financial Statements includes a summary of our significant accounting policies and methods used in the preparation of our financial statements. In preparing these financial statements, we have made our best estimates and judgments of certain amounts included in the financial statements, giving due consideration to

materiality. The application of these accounting policies involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates. Our critical accounting policies and estimates are as follows:

Revenue and Expense Recognition for the Professional Sales Service Segment

We recognize commission revenue in the professional sales service segment 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 delivered and 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 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.

Revenue and Expense Recognition for the IT Segment

The Company currently derives its revenues in the IT segment from two sources: (1) telecommunication and managed network services, which are comprised primarily of fixed monthly fees and variable usage charges; and (2) the resale to diagnostic imaging service providers of GEHC's PACS software solutions, which is comprised of software from GEHC and other vendors, hardware, related solution implementation services, and post-implementation customer support ("PCS"). We offer our customers the option to purchase our software solutions or to subscribe our solutions under a monthly Software as a Service ("SaaS") fee basis. Customers that purchase our software solutions may elect to purchase PCS, comprised of software license updates and product support contracts, which provide our customers with rights to unspecified product upgrades and maintenance releases issued during the support period, as well as technical support assistance and remote network monitoring.

Revenue Recognition for Multiple-Element Arrangements - Arrangements with Software and Non-software Elements

We enter into multiple-element arrangements that may include a combination of our various software related and non-software related products and services offerings including new software licenses, hardware, implementation services, PCS and monthly subscription-based SaaS solutions. In such arrangements, we first allocate the total arrangement consideration based on the relative selling prices of the software group of elements as a whole and to the non-software elements. We then further allocate consideration within the software group to the respective elements within that group following the guidance in ASC 985-605, "Software-Revenue Recognition" and allocate consideration within the non-software group to the respective elements within that group following the guidance in ASC 605-25, "Revenue Recognition, Multiple-Element Arrangements". After the arrangement consideration has been allocated to the elements, we account for each respective element in the arrangement as described below.

Revenue Recognition for Multiple-Element Arrangements - Software Products and Software Related Services (Software Arrangements)

We enter into arrangements with customers that purchase both software related products and software related services from us at the same time, or within close proximity of one another (referred to as software related multiple-element arrangements). Such software related multiple-element arrangements include the sale of our software products, implementation services, and PCS, whereby software license delivery is followed by the subsequent or contemporaneous delivery of the other elements. For those software related multiple-element arrangements, we have applied the residual method to determine the amount of new software license revenues to be recognized pursuant to ASC 985-605. Under the residual method, if fair value exists for undelivered elements in a multiple-element arrangement, such fair value of the undelivered elements is deferred with the remaining portion of the arrangement consideration generally recognized upon delivery of the software license. We allocate the fair value of each element of a software related multiple-element arrangement based upon its fair value as determined by our vendor specific objective evidence ("VSOE" as described further below), with any remaining amount allocated to the software license.

The basis for our software license revenue recognition is substantially governed by the accounting guidance contained in ASC 985-605. We exercise judgment and use estimates in connection with the determination of the amount of software and software related services revenues to be recognized in each accounting period. We recognize new software licenses revenues when: (1) we enter into a legally binding arrangement with a customer for the license of software; (2) we deliver the products; (3) the sale price is fixed or determinable and free of contingencies or significant uncertainties; and (4) collection is probable. Revenues that are not recognized at the time of sale because the foregoing conditions are not met, are recognized when those conditions are subsequently met. Our software license arrangements do not include acceptance provisions.

The vast majority of our software license arrangements include PCS, which is ordered at the customer's option and is recognized ratably over the term of the arrangement, typically three to five years. PCS provides customers with rights to unspecified software product upgrades, maintenance releases and patches released during the term of the support

period, as well as remote network monitoring and technical support. PCS is generally priced as a percentage of the net new software licenses fees.

Revenue Recognition for Multiple-Element Arrangements – SaaS, Hardware and Implementation services (Non-software Arrangements)

We enter into arrangements with customers that purchase multiple non-software related products and services from us within close proximity of one another (referred to as non-software multiple-element arrangements). Each element within a non-software multiple-element arrangement is accounted for as a separate unit of accounting provided the services have value to the customer on a standalone basis. We consider a deliverable to have standalone value if the service is sold separately by us or another vendor or could be resold by the customer.

For our non-software multiple-element arrangements, we allocate revenue to each element based on a selling price hierarchy at the arrangement's inception. The selling price for each element is based upon the following selling price hierarchy: VSOE if available, third party evidence ("TPE") if VSOE is not available, or estimated selling price ("ESP") if neither VSOE nor TPE are available. When possible, we establish VSOE of selling price for deliverables in software and nonsoftware multiple-element arrangements using the price charged for a deliverable when sold separately. TPE is established by evaluating similar and interchangeable competitor products or services in standalone arrangements with similarly situated customers. If we are unable to determine the selling price because VSOE or TPE does not exist, we determine ESP for the purposes of allocating the arrangement by reviewing several other external and internal factors including, but not limited to: historical transactions; pricing practices including discounting; and competition. The determination of ESP is made through consultation with and approval by our management, taking into consideration our pricing model and go-to-market strategy. As these strategies evolve, we may modify our pricing practices in the future, which could result in changes to our determination of VSOE, TPE and ESP. As a result, our future revenue recognition for multiple-element arrangements could differ materially from our results in the current period.

Our revenue recognition policy for non-software deliverables including SaaS and implementation services is based upon the accounting guidance contained in ASC 605-25, and we exercise judgment and use estimates in connection with the determination of the amount of SaaS and implementation service revenues to be recognized in each accounting period.

Revenues from the sales of our non-software elements are recognized when: (1) persuasive evidence of an arrangement exists; (2) we perform the services or deliver the product; (3) the sale price is fixed or determinable; and (4) collection is reasonably assured. Revenues that are not recognized at the time of sale because the foregoing conditions are not met are recognized when those conditions are subsequently met. Our arrangements are documented in a written contract signed by the customer, are non-cancelable, do not contain refund-type provisions, and do not include acceptance provisions.

Our SaaS offerings provide deployment of our software and hardware and related network monitoring infrastructure including PCS for a stated term that is hosted at our data center facilities or physically on-premises at customer facilities for a monthly subscription fee. Revenues for these SaaS offerings are generally recognized ratably over the contract term commencing with the date the service is made available to customers and all other revenue recognition criteria have been satisfied. The Company recognizes revenue for hardware upon delivery and for implementation services rendered when related milestones are complete.

Revenue and Expense Recognition for the Equipment Segment

In the United States, we recognize revenue from the sale of our medical equipment in the period in which we deliver the product to the customer. Revenue from the sale of our medical equipment to international markets is recognized upon shipment of the product to a common carrier, as are supplies, accessories and spare parts delivered to both domestic and international customers.

In most cases, revenue from domestic EECP® system sales is generated from multiple-element arrangements that require judgment in the areas of customer acceptance, collectability, the separability of units of accounting, and the fair value of individual elements. We follow the ASC 605-25 which outlines a framework for recognizing revenue from multi-deliverable arrangements. We determined that the domestic sale of our EECP® systems includes a combination of three elements that qualify as separate units of accounting:

(1) EECP® equipment sale;
(2) provision of in-service and training support consisting of equipment set-up and training provided at the customer's facilities; and
(3) a service arrangement (usually one year), consisting of: service by factory-trained service representatives, material and labor costs, emergency and remedial service visits, software upgrades, technical phone support and preferred response times.

Each of these elements represent individual units of accounting as the delivered item has value to a customer on a stand-alone basis, objective and reliable evidence of fair value exists for undelivered items, and arrangements normally do not contain a general right of return relative to the delivered item. We determine fair value based on the price of the deliverable when it is sold separately, or based on third-party evidence, or based on estimated selling price. Assuming all other criteria for revenue recognition have been met, we recognize equipment sales and services revenue for:

(1) EECP® equipment sales, when title transfers upon delivery;
(2) in-service and training, following documented completion of the training; and
(3) service arrangement, ratably over the service period, which is generally one year.

The Company also recognizes revenue generated from servicing EECP® systems that are no longer covered by the service arrangement, or by providing sites with additional training, in the period that these services are provided. Revenue related to future commitments under separately priced extended service agreements on our EECP® system are deferred and recognized ratably over the service period, generally ranging from one year to four years. Costs associated with the provision of in-service and training, service arrangements, and separately priced extended service agreements, including salaries, benefits, travel and spare parts, and equipment, are recognized in cost of equipment sales and services as incurred. Amounts billed in excess of revenue recognized are included as deferred revenue in the consolidated balance sheets.

Inventories, net

We value inventory at the lower of cost or estimated market, with cost being determined on a first-in, first-out basis. The Company often places EECP® systems and other medical device products at various field locations for demonstration, training, evaluation, and other similar purposes at no charge. The cost of these EECP® systems and other products is transferred to property and equipment and is amortized over the next two to five years. The Company records the cost of refurbished components of EECP® systems and critical components at cost plus the cost of refurbishment. The Company regularly reviews inventory quantities on hand, particularly raw materials and components, and records a provision for excess and slow moving inventory based primarily on existing and anticipated design and engineering changes to its products as well as forecasts of future product demand.

We comply with the provisions of ASC Topic 330, "Inventory". The statement clarifies that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) should be recognized as current-period charges and requires the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities.

Goodwill and Intangible Assets

Goodwill represents the excess of cost over the fair value of net assets of businesses acquired. The Company accounts for goodwill under the guidance of the ASC Topic 350, "Intangibles: Goodwill and Other". Goodwill acquired in a purchase business combination and determined to have an indefinite useful life is not amortized, but instead tested for impairment, at least annually, in accordance with this guidance. The recoverability of goodwill is subject to an annual impairment test or whenever an event occurs or circumstances change that would more likely than not result in an impairment. The impairment test is based on the estimated fair value of the underlying businesses and performed in the fourth quarter of each year. Intangible assets consist of the value of customer contracts and relationships, patent and technology costs, and software. The cost of significant customer-related intangibles is amortized in proportion to estimated total related revenue; cost of other intangible assets is generally amortized on a straight-line basis over the asset's estimated economic life, which range from five to ten years. The Company capitalizes internal use software costs incurred during the application development stage. Costs related to preliminary project activities and post implementation activities are expensed as incurred.

Deferred Revenues

For the professional sales service segment, amounts billable under the agreement with GE Healthcare in advance of customer acceptance of the equipment are recorded initially as deferred revenue, and commission revenue is subsequently recognized as customer acceptance of such equipment is reported to us by GEHC.

For the equipment segment, we record revenue on extended service contracts ratably over the term of the related contract period. In accordance with the provisions of ASC Topic 605, we defer revenue related to EECP® system sales for the fair value of installation and in-service training to the period when the services are rendered and for warranty obligations ratably over the service period, which is generally one year.

Income Taxes

Deferred income taxes are recognized for temporary differences between financial statement and income tax bases of assets and liabilities and loss carry forwards for which income tax benefits are expected to be realized in future years. A valuation allowance is established, when necessary, to reduce deferred tax assets to the amount expected to be realized. In estimating future tax consequences, we generally consider all expected future events other than an enactment of changes in the tax laws or rates. Deferred tax assets are continually evaluated for realizability. To the extent our judgment regarding the realization of the deferred tax assets changes, an adjustment to the allowance is recorded, with an offsetting increase or decrease, as appropriate, in income tax expense. Such adjustments are recorded in the period in which our estimate as to the realizability of the assets changed that it is "more likely than not" that all of the deferred tax assets will be realized. The "more likely than not" standard is subjective and is based upon our estimate of a greater than 50% probability that the deferred tax asset will be realized.

The Company early adopted ASU 2015-17 (Topic 740), "Balance Sheet Classification of Deferred Taxes", which requires the presentation of deferred tax liabilities and assets as noncurrent within a classified statement of financial position.

We also comply with the provisions of the ASC Topic 740, "Income Taxes", which prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. Based on its analysis, the Company has determined that it has not incurred any liability for unrecognized tax benefits as of December 31, 2015 and December 31, 2014. The Company recognizes accrued interest and penalties related to unrecognized tax benefits as income tax expense. No amounts were accrued for the payment of interest and penalties at December 31, 2015 and December 31, 2014. Management is currently unaware of any issues under review that could result in significant payments, accruals or

material deviations from its position.

Recently Issued Accounting Pronouncements

Note B of the Notes to Consolidated Financial Statements includes a description of the Company's evaluation of recently issued accounting pronouncements.

ITEM 8 - FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements listed in the accompanying Index to Consolidated Financial Statements are filed as part of this report.

ITEM 9A - CONTROLS AND PROCEDURES

Report on 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 December 31, 2015 and have concluded that the Company's disclosure controls and procedures were effective as of December 31, 2015.

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company as defined in Rule 13a-15(f) and 15d-15(f)of the Exchange Act. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Internal control involves maintaining records that accurately represent our business transactions, providing reasonable assurance that receipts and expenditures of company assets are made in accordance with management authorization, and providing reasonable assurance that unauthorized acquisition, use or disposition of company assets that could have a material effect on our financial statements would be detected or prevented on a timely basis.

Because of its innate limitations, internal control over our financial statements is not intended to provide absolute guarantee that a misstatement can be detected or prevented on the statements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in condition, or that the degree of compliance with the policies or procedures may deteriorate.

Management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 COSO framework). A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.

Based on this evaluation and those criteria, the Company's CEO and CFO concluded that the Company's internal control over financial reporting was effective as of December 31, 2015.

This report does not include an attestation report of the Company's Independent Registered Public Accounting Firm regarding internal control over financial reporting. Management's report was not subject to attestation by the

Company's Independent Registered Public Accounting Firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only Management's report in this Annual Report.

Changes in Internal Control over Financial Reporting

For the quarter ended December 31, 2015 there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART III

ITEM 10 – DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE
Directors of the Registrant

As of March 25, 2016, the members of our Board of Directors are:

Name of Director	Age	Principal Occupation	Director Since
Simon Srybnik	99	Chairman of the Board and Director	June, 2007
David Lieberman (1)	71	Vice Chairman of the Board and Director	February, 2011
Jun Ma	52	President, Chief Executive Officer and Director	June, 2007
Peter C. Castle (1)	47	Chief Operating Officer and Director	August, 2010
Randy Hill	69	Chief Executive Officer of VasoHealthcare and Director	April, 2013
Joshua Markowitz (3)	60	Director	June, 2015
Behnam Movaseghi (1) (2) (3)	62	Director	July, 2007
Edgar Rios (2)	63	Director	February, 2011

(1) Member of the Executive Committee
(2) Member of the Audit Committee
(3) Member of Compensation Committee

The following is a brief account of the business experience for at least the past five years of our directors:

Simon Srybnik has been a director since June 2007 and Chairman of the Board since June 2010. He is the Chairman of the Board of Kerns Manufacturing Corp. and Living Data Technology Corp., both of which are shareholders of the Company. A lifetime entrepreneur and industrialist, Mr. Srybnik has founded and managed many companies in various industries including machinery and process equipment, aerospace and defense, biotechnology and healthcare.

David Lieberman has been a director of the Company and the Vice Chairman of the Board, since February 2011. Mr. Lieberman has been a practicing attorney in the State of New York for more than 40 years, specializing in corporation and securities law. He is currently a senior partner at the law firm of Beckman, Lieberman & Barandes, LLP, which firm performs certain legal services for the Company and its subsidiaries. Mr. Lieberman is a former Chairman of the Board of Herley Industries, Inc., which was sold in March, 2011.

Jun Ma, PhD, has been a director since June 2007 and was appointed President and Chief Executive Officer of the Company on October 16, 2008. Dr. Ma has held various positions in academia and business, and prior to becoming President and CEO of the Company, had provided technology and business consulting services to several domestic and international companies in aerospace, automotive, biomedical, medical device, and other industries, including Kerns Manufacturing Corp. and Living Data Technology Corp., both of which are stockholders of our Company. Dr. Ma received his PhD degree in mechanical engineering from Columbia University, MS degree in biomedical engineering from Shanghai University, and BS degree in precision machinery and instrumentation from University of Science and Technology of China.

Peter Castle has been a director since August 2010 and was appointed the Chief Operating Officer of the Company after the NetWolves acquisition in June 2015. Prior to the acquisition, Mr. Castle was the President and Chief Operating Officer of NetWolves Network Services, LLC, where he has been employed since 1998. At NetWolves, Mr. Castle also held the position of Chief Financial Officer from 2001 until October 2009, Vice President of Finance since January 2000, Controller from August 1998 until December 1999 and Treasurer and Secretary from August 1999.

Randy Hill joined the Company as Senior Vice President of Vasomedical and Chief Executive Officer of VasoHealthcare on July 30, 2012 and served in that position through December 31, 2015. Prior to joining Vasomedical, Mr. Hill was, until May 2011, interim Chief Executive Officer of Siemens Healthcare USA, the U.S. organization of the healthcare sector of Siemens AG (NYSE:SI), a German multinational conglomerate. For several years prior to that, Mr. Hill was Chief Operating Officer of Siemens Healthcare USA. In addition to his career at Siemens Healthcare spanning several decades in a wide range of roles with many different responsibilities, Mr. Hill, as a recognized leader in the medical imaging business, is also former Chair of the Board of Medical Imaging & Technology Alliance (MITA), the leading organization and collective voice of medical imaging equipment manufacturers, innovators, and product developers.

Joshua Markowitz has been a director since June 2015 and has been a practicing attorney in the State of New Jersey for in excess of 30 years. He is currently a senior partner in the New Jersey law firm of Markowitz O'Donnell, LLP. Mr. Markowitz is the brother-in-law of the Company's Chairman, Mr. Simon Srybnik.

Behnam Movaseghi, CPA has been a director since July 2007. Mr. Movaseghi has been treasurer of Kerns Manufacturing Corporation since 2000, and controller from 1990 to 2000. For approximately ten years prior thereto Mr. Movaseghi was a tax and financial consultant. Mr. Movaseghi is a Certified Public Accountant.

Edgar G. Rios has been a director of the Company since February 2011. Mr. Rios currently is President of Edgary Consultants, LLC. and was appointed a director in conjunction with the Company's consulting agreement with Edgary Consultants, LLC. Mr. Rios is co-founder and managing director of Wenzi Capital Partners, a venture capital and private equity firm. Mr. Rios was a co-founder, Executive Vice President, General Counsel, Secretary, and Director of AmeriChoice Corporation from its inception in 1989 through its acquisition by UnitedHealthcare in 2002 after its annual revenues grew to $675 million. Prior to co-founding AmeriChoice, Mr. Rios was a co-founder of a number of businesses that provided technology services and non-technology products to government purchasers. Over the years, Mr. Rios also has been an investor, providing seed capital to various technology and nontechnology start-ups. Mr. Rios also serves as a member of the Board of Trustees of Meharry Medical School and as a director and secretary of the An-Bryce Foundation. Mr. Rios holds a J.D. from Columbia University Law School and an A.B. from Princeton University.

Committees of the Board of Directors

Executive Committee

The primary purpose of the Executive Committee is to function when the Board of Directors is not in session. During the intervals between meetings of the Board, the Committee shall have and may exercise the powers of the Board, except as limited by Delaware statute. It will also take such other action and do such other things as may be referred to it from time to time by the Board.

Audit Committee and Audit Committee Financial Expert

The Board has a standing Audit Committee. The Board has affirmatively determined that each director who serves on the Audit Committee is independent, as the term is defined by applicable Securities and Exchange Commission ("SEC") rules. During the year ended December 31, 2015, the Audit Committee consisted of Peter Castle, who has served as the committee chair until the NetWolves acquisition in May 2015 and was then replaced by Edgar Rios, and Behnam Movaseghi, who joined the committee in November 2011. The members of the Audit Committee have substantial experience in assessing the performance of companies, gained as members of the Company's Board of Directors and Audit Committee, as well as by serving in various capacities in other companies or governmental agencies. As a result, they each have an understanding of financial statements. The Board believes that Behnam Movaseghi fulfills the role of the financial expert on this committee.

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The Audit Committee regularly meets with our independent registered public accounting firm outside the presence of management.

The Audit Committee operates under a charter approved by the Board of Directors. The Audit Committee charter is available on our website.

Compensation Committee

Our Compensation Committee annually establishes, subject to the approval of the Board of Directors and any applicable employment agreements, the compensation that will be paid to our executive officers during the coming year, as well as administers our stock-based benefit plans. During the year ended December 31, 2015, the Compensation Committee consisted of Behnam Movaseghi, who served as the committee chair until June 2015 at which time Joshua Markowitz assumed the role, and Peter Castle until the NetWolves acquisition in June 2015, at which time he stepped down from his position on the committee. None of these persons have been officers or employees of the Company at the time of their position on the committee, or, except as otherwise disclosed, had any relationship requiring disclosure herein.

The Compensation Committee operates under a charter approved by the Board of Directors. The Compensation Committee charter is available on our website.

MEETINGS OF THE BOARD OF DIRECTORS AND COMMITTEES

During the year ended December 31, 2015 there were:

- 5 meetings of the Board of Directors
- 4 meetings of the Audit Committee
- 2 meetings of the Executive Committee
- 3 meeting of the Compensation Committee

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires directors, executive officers and persons who beneficially own more than 10% of our common stock (collectively, "Reporting Persons") to file initial reports of ownership and reports of changes in ownership of our common stock with the SEC. Reporting Persons are required by SEC regulations to furnish us with copies of all Section 16(a) reports they file. To our knowledge, based solely on our review of the copies of such reports received or written representations from certain Reporting Persons that no other reports were required, we believe that during the year ended December 31, 2015 all Reporting Persons timely complied with all applicable filing requirements.

Corporate Governance - Code of Ethics

We have adopted a Corporate Code of Business Ethics (the "Code") that applies to all employees, including our principal executive officer, principal financial officer, and directors of the Company. A copy of the Code can be found on our website, www.vasomedical.com. The Code is broad in scope and is intended to foster honest and ethical conduct, including accurate financial reporting, compliance with laws and the like. If any substantive amendments are made to the Code or if there is any grant of waiver, including any implicit waiver, from a provision of the Code to our Chief Executive Officer or Chief Financial Officer, we will disclose the nature of such amendment or waiver in a Current Report on Form 8-K.

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Executive Officers of the Registrant

As of March 25, 2016 our executive officers are:

Name of Officer	Age	Position held with the Company
Jun Ma, PhD	52	President, Chief Executive Officer
Peter C. Castle	47	Chief Operating Officer
Randy Hill	69	Senior Vice President
Michael J. Beecher	71	Chief Financial Officer and Secretary
Jonathan P. Newton	55	Vice President of Finance and Treasurer

Michael J. Beecher, CPA, joined the Company as Chief Financial Officer in September 2011. Prior to joining Vasomedical, Mr. Beecher was Chief Financial Officer of Direct Insite Corp., a publicly held company, from December 2003 to September 2011. Prior to his position at Direct Insite, Mr. Beecher was Chief Financial Officer and Treasurer of FiberCore, Inc., a publicly held company in the fiber-optics industry. From 1989 to 1995 he was Vice-President Administration and Finance at the University of Bridgeport. Mr. Beecher began his career in public accounting with Haskins & Sells, an international public accounting firm. He is a graduate of the University of Connecticut, a Certified Public Accountant and a member of the American Institute of Certified Public Accountants.

Jonathan P. Newton served as Chief Financial Officer of the Company from September 1, 2010 to September 8, 2011, and is currently Vice President of Finance and Treasurer. From June 2006 to August 2010, Mr. Newton was Director of Budgets and Financial Analysis for Curtiss-Wright Flow Control. Prior to his position at Curtiss-Wright Flow Control, Mr. Newton was Vasomedical's Director of Budgets and Analysis from August 2001 to June 2006. Prior positions included Controller of North American Telecommunications Corp., Accounting Manager for Luitpold Pharmaceuticals, positions of increasing responsibility within the internal audit function of the Northrop Grumman Corporation and approximately three and one half years as an accountant for Deloitte Haskins & Sells, during which time Mr. Newton became a Certified Public Accountant. Mr. Newton holds a B.S. in Accounting from SUNY at Albany, and a B.S. in Mechanical Engineering from Hofstra University.

ITEM 11 - EXECUTIVE COMPENSATION

The following table sets forth the annual and long-term compensation of our Chief Executive Officer and each of our most highly compensated officers and employees who were serving as executive officers or employees at the end of the last completed fiscal year for services rendered for the years ended December 31, 2015 and 2014.

Summary Compensation Table

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($) (1)	Option Awards ($) (1)	Non-Equity Incentive Plan Compensation ($)	Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($) (2)	Total ($)
Jun Ma, PhD Chief Executive Officer	2015	333,333	125,000	40,000				56,364	554,697
	2014	275,000	-	87,500				7,200	369,700
Peter C. Castle Chief Operating Officer (1)	2015	204,167	80,000	270,000				40,863	595,030
Michael J. Beecher Chief Financial Officer	2015	185,000	30,000	25,000				16,393	256,393
	2014	185,000	-					14,122	199,122
Randy Hill Senior Vice President	2015	400,000	80,000	17,000				8,400	505,400
	2014	400,000	200,000	35,000				81,032	716,032
Jonathan P. Newton Vice President of Finance and Treasurer (4)	2015	160,000	20,000	15,000				20,808	215,808
	2014	160,000	-	35,000				13,174	208,174

1. Mr. Castle has served as Chief Operating Officer since June 2015.
2. Represents fair value on the date of grant. See Note B to the Consolidated Financial Statements included in our Form 10–K for the year ended December 31, 2015 for a discussion of the relevant assumptions used in calculating grant date fair value.
3. Represents tax gross-ups, vehicle allowances, Company-paid life insurance, and amounts matched in the Company's 401(k) Plan.

Outstanding Equity Awards at Last Fiscal Year End

The following table provides information concerning outstanding options, unvested stock and equity incentive plan awards for our Named Executive Officers at December 31, 2015:

Option Awards	Stock Awards

Name	Number of Securities Underlying Unexercised Options - Exercisable	Number of Securities Underlying Unexercised Options - Unexercisable	Equity Incentive Plan Awards: Number of Underlying Unexercised Unearned Options	Option Exercise Price	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested	Market Value of Shares or Units of Stock That Have Not Vested	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested
Jun Ma, PhD	150,000	-	-	$ 0.12	7/25/2017	-	-	-	-
						125,000	43,750	-	-
Peter C. Castle						1,000,000	180,000	-	-

The future vesting dates of the above stock awards are:

Name	Number of Shares or Units of Stock That Have Not Vested	Vesting Date
Jun Ma, PhD	125,000	2/7/2016
Peter C. Castle	250,000	6/15/2016
	250,000	6/15/2017
	250,000	6/15/2018
	250,000	6/15/2019

Employment Agreements

On March 21, 2011, the Company entered into an Employment Agreement with its President and Chief Executive Officer, Dr. Jun Ma, for a three-year term ending on March 14, 2014. The agreement was amended in 2013 and again in 2015 to provide for a continuing three-year term, unless earlier terminated by the Company, but in no event can extend beyond March 14, 2021. The Employment Agreement currently provides for annual compensation of $375,000. Dr. Ma shall be eligible to receive a bonus for each fiscal year thereafter during the employment term. The amount and the occasion for payment of such bonus, if any, shall be at the discretion of the Board of Directors. Dr. Ma shall also be eligible for an award under any long-term incentive compensation plan and grants of options and awards of shares of the Company's stock, as determined at the Board of Directors' discretion. The Employment Agreement further provides for reimbursement of certain expenses, and certain severance benefits in the event of termination prior to the expiration date of the Employment Agreement.

On June 1, 2015, the Company entered into an Employment Agreement with Mr. Peter Castle to be its Chief Operating Officer. The agreement provides for a three-year term ending on June 1, 2018 and shall extend for additional one-year periods annually commencing June 1, 2018, unless earlier terminated by the Company, but in no event can extend beyond June 1, 2021. The Employment Agreement currently provides for annual compensation of $350,000. Mr. Castle shall be eligible to receive a bonus for each fiscal year thereafter during the employment term. The amount and the occasion for payment of such bonus, if any, shall be at the discretion of the Board of Directors. Mr. Castle shall also be eligible for an award under any long-term incentive compensation plan and grants of options and awards of shares of the Company's stock, as determined at the Board of Directors' discretion. The Employment Agreement further provides for reimbursement of certain expenses, and certain severance benefits in the event of termination prior to the expiration date of the Employment Agreement.

401(K) Plan

The Company maintains two defined contribution plans to provide retirement benefits for its employees - the Vasomedical, Inc. 401(k) Plan adopted in April 1997, and the NetWolves Network Services, LLC 401(k) Plan adopted in January 2015. As allowed under Section 401(k) of the Internal Revenue Code, the plan provides tax-deferred salary deductions for eligible employees. Employees are eligible to participate in the next quarter enrollment period after employment under the Vasomedical Plan and after six months employment under the NetWolves Plan. Participants may make voluntary contributions to the plan up to 80% of their compensation under the Vasomedical Plan, or up to the maximum allowed by law under the NetWolves Plan. In the years ended December

31, 2015 and 2014 the Company made discretionary contributions of approximately $95,000 and $85,000, respectively, to match a percentage of employee contributions.

Director's Compensation

Non-employee directors receive a fee of $2,500 for each Board of Directors and Committee meeting attended. Committee chairs receive an annual fee of $5,000. Non-employee directors also receive an annual fee of $30,000. These fees are either paid in cash, or common stock valued at the fair market value of the common stock on the date of grant, which is the meeting date.

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)	Option Awards ($)	Non-equity Incentive Plan Compensation ($)	Nonqualified Deferred Compensation Earnings ($)	All Other Compensation (1) ($)	Total ($)
Simon Srybnik	100,000	-	-	-	-	-	100,000
David Lieberman	46,500	-	-	-	-	-	46,500
Jun Ma, PhD	-	-	-	-	-	-	-
Randy Hill	-	-	-	-	-	-	-