

VASOMEDICAL, INC
Form 10-Q
August 14, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2012

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

Commission File Number: 0-18105

VASOMEDICAL, INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

11-2871434
(IRS Employer Identification Number)

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

Registrant's Telephone Number (516) 997-4600

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. Large Accelerated Filer Accelerated Filer Non-Accelerated Filer Smaller Reporting Company

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

Number of Shares Outstanding of Common Stock, \$.001 Par Value, at August 10, 2012 – 158,746,910.

Vasomedical, Inc. and Subsidiaries

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ITEM 1 - FINANCIAL STATEMENTS

Vasomedical, Inc. and Subsidiaries

CONSOLIDATED CONDENSED BALANCE SHEETS

(in thousands, except share data)

	June 30, 2012	December 31, 2011
	(unaudited)	(audited)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$11,783	\$2,294
Short-term investments	110	110
Accounts and other receivables, net of an allowance for doubtful accounts and commission adjustments of \$1,965 at June 30, 2012 and \$2,163 at December 31, 2011	-	20,695
Receivables due from related parties	10	196
Inventories, net	2,285	2,421
Financing receivables, net	20	19
Deferred commission expense	2,495	2,053
Deferred related party consulting expense - current portion	339	510
Other current assets	396	202
Total current assets	26,422	28,500
PROPERTY AND EQUIPMENT, net of accumulated depreciation of \$1,540 at June 30, 2012 and \$1,774 at December 31, 2011	564	429
GOODWILL	3,968	3,939
FINANCING RECEIVABLES, net	5	16
DEFERRED RELATED PARTY CONSULTING EXPENSE	-	85
OTHER ASSETS	1,096	1,337
	\$32,055	\$34,306
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$456	\$273
Accrued commissions	2,336	3,889
Accrued expenses and other liabilities	2,724	2,531
Sales tax payable	392	355
Income taxes payable	89	278
Deferred revenue - current portion	10,685	9,484
Deferred gain on sale-leaseback of building - current portion	4	31
Deferred tax liability, net	112	112
Notes payable due to related party	3	193
Total current liabilities	16,801	17,146
LONG-TERM LIABILITIES		
Deferred revenue	4,513	5,743
Other long-term liabilities	117	141
Total long-term liabilities	4,630	5,884
COMMITMENTS AND CONTINGENCIES (NOTE N)		
STOCKHOLDERS' EQUITY		
Preferred stock, \$.01 par value; 1,000,000 shares authorized; nil shares		

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issued and outstanding at June 30, 2012, and December 31, 2011	-	-
Common stock, \$.001 par value; 250,000,000 shares authorized; 158,746,910 and 153,186,295 shares issued and outstanding at June 30, 2012 and December 31, 2011	159	153
Additional paid-in capital	60,771	60,188
Accumulated deficit	(50,304)	(49,065)
Accumulated other comprehensive loss	(2)	-
Total stockholders' equity	10,624	11,276
	\$32,055	\$34,306

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

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Vasomedical, Inc. and Subsidiaries

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
(Unaudited)

(in thousands, except per share data)

	Six months ended June 30,		Three months ended June 30,	
	2012	2011	2012	2011
Revenues				
Equipment sales	\$2,509	\$1,086	\$1,056	\$558
Equipment rentals and services	1,032	1,119	499	542
Commissions	10,199	7,815	6,142	4,075
Total revenues	13,740	10,020	7,697	5,175
Cost of revenues				
Cost of sales, equipment	1,022	748	416	355
Cost of equipment rentals and services	551	478	258	213
Cost of commissions	2,456	2,049	1,493	1,119
Total cost of revenues	4,029	3,275	2,167	1,687
Gross profit	9,711	6,745	5,530	3,488
Operating expenses				
Selling, general and administrative	10,665	7,944	5,335	4,314
Research and development	272	243	120	134
Total operating expenses	10,937	8,187	5,455	4,448
Operating (loss) income	(1,226)	(1,442)	75	(960)
Other income (expenses)				
Interest and financing costs	(3)	(25)	-	(24)
Interest and other income, net	30	18	58	17
Amortization of deferred gain on sale-leaseback of building	27	27	13	13
Total other income (expenses), net	54	20	71	6
(Loss) income before income taxes	(1,172)	(1,422)	146	(954)
Income tax expense	(116)	-	(92)	(2)
Net (loss) income	(1,288)	(1,422)	54	(956)
Preferred stock dividends	-	(279)	-	(151)
Net (loss) income applicable to common stockholders	(1,288)	(1,701)	54	(1,107)
Other comprehensive (loss) income				
	(2)	-	21	-

Foreign currency translation
(loss) gain

Comprehensive (loss) income	\$ (1,290)	\$ (1,701)	\$ 75	\$ (1,107)
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(Loss) earnings per common
share

- basic and diluted	\$ (0.01)	\$ (0.01)	\$ 0.00	\$ (0.01)
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Weighted average common shares outstanding

- basic	156,225	114,077	158,072	116,198
- diluted	156,225	114,077	161,806	116,198

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

Vasomedical, Inc. and Subsidiaries
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

(in thousands)

	Six months ended	
	June 30, 2012	June 30, 2011
Cash flows from operating activities		
Net loss	\$ (1,288)	\$ (1,422)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation and amortization of property and equipment	103	74
Amortization of deferred gain on sale-leaseback of building	(27)	(27)
Provision for doubtful accounts and commission adjustments	(3)	9
Amortization of deferred distributor costs	-	63
Share-based compensation	231	203
Amortization of deferred consulting expense	288	208
Changes in operating assets and liabilities:		
Accounts and other receivables	11,716	8,653
Receivables due from related parties	186	-
Inventories, net	119	(257)
Finance receivables	9	9
Deferred commission expense	(442)	(168)
Other current assets	(212)	(96)
Other assets	230	(33)
Accounts payable	183	249
Accrued commissions	(1,553)	(94)
Accrued expenses and other liabilities	203	(602)
Sales tax payable	36	9
Income taxes payable	(190)	(1)
Deferred revenue	(29)	(1,277)
Trade payable due to related party	-	(243)
Other long-term liabilities	(36)	(591)
Net cash provided by operating activities	9,524	4,666
Cash flows from investing activities		
Purchases of property and equipment	(204)	(16)
Purchases of short-term investments	-	(40)
Net cash used in investing activities	(204)	(56)
Cash flows from financing activities		
Proceeds from exercise of warrant	343	-
Repayment of note payable	-	(294)
Repayment of notes payable due to related party	(190)	-
Proceeds from issuance of preferred stock	-	150
Net cash provided by (used in) financing activities	153	(144)
Effect of exchange rate differences on cash	16	-

NET INCREASE IN CASH AND CASH EQUIVALENTS		
	9,489	4,466
Cash and cash equivalents - beginning of period	2,294	3,101
Cash and cash equivalents - end of period	\$ 11,783	\$ 7,567

SUPPLEMENTAL DISCLOSURE OF CASH INFORMATION

Interest paid	\$ 5	\$ 4
Income taxes paid	\$ 242	\$ 5

SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES

Inventories transferred to property and equipment, attributable to operating leases, net		
	\$ 20	\$ 63
Accrued preferred stock dividends	\$ -	\$ 279
Issuance of preferred stock in satisfaction of accrued dividend	\$ -	\$ 101
Common shares issued for consulting agreements	\$ -	\$ 1,070

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

Vasomedical, Inc. and Subsidiaries

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

NOTE A - ORGANIZATION AND PLAN OF OPERATIONS

Vasomedical, Inc. was incorporated in Delaware in July 1987. Unless the context requires otherwise, all references to “we”, “our”, “us”, “Company”, “registrant”, “Vasomedical” or “management” refer to Vasomedical, Inc. and its subsidiaries. In 2010, we were primarily engaged in designing, manufacturing, marketing and supporting EECP® enhanced external counterpulsation systems based on our unique proprietary technology currently indicated for use in cases of stable or unstable angina (i.e., chest pain), congestive heart failure (“CHF”), acute myocardial infarction (i.e., heart attack, (MI)) and cardiogenic shock. In May 2010, the Company, through its wholly-owned subsidiary Vaso Diagnostics, Inc. d/b/a VasoHealthcare, expanded into the sales representation business via its agreement with GE Healthcare (“GEHC”), the healthcare business unit of General Electric Company (NYSE: GE), to be GEHC’s exclusive sales representative for the sale of select GEHC diagnostic imaging products in specific market segments in the 48 contiguous states of the United States and the District of Columbia. In June 2012, the Company entered into an amendment, effective July 1, 2012, of the sales representative agreement (“GEHC Agreement”) extending the initial term of three years commencing July 1, 2010 to five years through June 30, 2015, subject to earlier termination under certain circumstances.

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

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

NOTE B - BASIS OF PRESENTATION AND CRITICAL ACCOUNTING POLICIES

Basis of Presentation and Use of Estimates

The accompanying consolidated condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and pursuant to the accounting and disclosure rules and regulations of the Securities and Exchange Commission (the "SEC"). Certain information and disclosures normally included in the consolidated condensed financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations. Accordingly, these consolidated condensed financial statements should be read in connection with the audited consolidated financial statements and related notes thereto included in the Company's Transition Report on Form 10-K for the transition period ended December 31, 2011, as filed with the SEC. These consolidated condensed financial statements include the accounts of the companies over which we exercise control. In the opinion of management, the accompanying consolidated condensed financial statements reflect all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of interim results for the Company. The results of operations for any interim period are not necessarily indicative of results to be expected for any other interim period or the full year.

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

Vasomedical, Inc. and Subsidiaries

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Significant Accounting Policies

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

Reclassifications

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

NOTE C – SEGMENT REPORTING AND CONCENTRATIONS

The Company views its business in two segments – the Equipment segment and the Sales Representation segment. The Equipment segment is engaged in designing, manufacturing, marketing and supporting EECP® enhanced external counterpulsation systems both domestically and internationally, as well as the marketing of other medical devices. The Sales Representation segment operates through the VasoHealthcare subsidiary and is currently engaged solely in the execution of the Company’s responsibilities under our agreement with GEHC. The Company evaluates segment performance based on operating income. Administrative functions such as finance, human resources, and information technology are centralized and related expenses allocated to each segment. Other costs not directly attributable to operating segments, such as audit, legal, director fees, investor relations, and others, as well as certain assets – primarily cash balances – are reported in the Corporate entity below. There are no intersegment revenues. Summary financial information for the segments is set forth below:

	(in thousands)			
	As of or for the three months ended June 30, 2012			
	Sales			
	Equipment Segment	Representation Segment	Corporate	Consolidated
Revenues from external customers	\$ 1,555	\$ 6,142	\$-	\$ 7,697
Operating income/(loss)	\$(197)	\$ 681	\$(409)	\$ 75
Total assets	\$9,323	\$ 11,558	\$11,174	\$ 32,055
Accounts and other receivables, net	\$1,151	\$ 7,833	\$-	\$ 8,984
Deferred commission expense	\$-	\$ 3,490	\$-	\$ 3,490

	As of or for the three months ended June 30, 2011			
	Sales			
	Equipment Segment	Representation Segment	Corporate	Consolidated
Revenues from external customers	\$ 1,100	\$ 4,075	\$-	\$ 5,175
Operating loss	\$(475)	\$ (386)	\$(99)	\$ (960)
Total assets	\$4,440	\$ 6,330	\$7,687	\$ 18,457
Accounts and other receivables, net	\$749	\$ 3,552	\$-	\$ 4,301

Deferred commission expense	\$-	\$ 2,703	\$-	\$ 2,703
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Vasomedical, Inc. and Subsidiaries

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(In thousands)

As of or for the six months ended June 30, 2012

Sales

Equipment Representation

Segment

Segment

Corporate

Consolidated

Revenues from external customers