

VASOMEDICAL, INC
Form 10-Q
November 13, 2014

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 September 30, 2014

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 November 9, 2014 – 155,677,283

Vasomedical, Inc. and Subsidiaries

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PART I – FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

Vasomedical, Inc. and Subsidiaries

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	September 30, 2014	December 31, 2013
	(unaudited)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$9,054	\$7,961
Short-term investments	111	111
Accounts and other receivables, net of an allowance for doubtful accounts and commission adjustments of \$3,689 at September 30, 2014 and \$3,764 at December 31, 2013	7,167	13,570
Receivables due from related parties	21	21
Inventories, net	1,937	1,618
Deferred commission expense	2,388	2,312
Other current assets	504	338
Total current assets	21,182	25,931
PROPERTY AND EQUIPMENT, net of accumulated depreciation of \$1,362 at September, 2014 and \$1,281 at December 31, 2013	272	365
GOODWILL	3,280	3,303
OTHER ASSETS, net	7,585	3,918
	\$32,319	\$33,517
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$525	\$597
Accrued commissions	2,106	2,161
Accrued expenses and other liabilities	4,351	5,571
Sales tax payable	191	230
Deferred revenue - current portion	9,158	10,541
Deferred tax liability, net	112	112
Notes payable due to related party	1,019	3
Total current liabilities	17,462	19,215
LONG-TERM LIABILITIES		
Deferred revenue	9,078	7,478
Other long-term liabilities	573	359
Total long-term liabilities	9,651	7,837
COMMITMENTS AND CONTINGENCIES (NOTE N)		
STOCKHOLDERS' EQUITY		
Preferred stock, \$.01 par value; 1,000,000 shares authorized; no shares issued and outstanding at September 30, 2014, and December 31, 2013	-	-
Common stock, \$.001 par value; 250,000,000 shares authorized;		

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165,985,370 and 164,705,382 shares issued at September 30, 2014 and December 31, 2013, respectively; 155,677,283 and 155,223,981 shares outstanding at September 30, 2014 and

December 31, 2013, respectively	166	165
Additional paid-in capital	61,864	61,508
Accumulated deficit	(54,904)	(53,561)
Accumulated other comprehensive income	80	108
Treasury stock, at cost, 10,308,087 and 9,481,101 shares at September 30, 2014 and December 31, 2013, respectively	(2,000)	(1,755)
Total stockholders' equity	5,206	6,465
	\$32,319	\$33,517

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

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Vasomedical, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Unaudited)

(in thousands, except per share data)

	Three months ended September 30		Nine months ended September 30,	
	2014	2013	2014	2013
Revenues				
Equipment sales	\$903	\$1,353	\$2,157	\$3,320
Equipment rentals and services	331	391	1,107	1,213
Commissions	6,409	5,862	19,335	18,262
Total revenues	7,643	7,606	22,599	22,795
Cost of revenues				
Cost of sales, equipment	251	381	745	1,015
Cost of equipment rentals and services	189	207	549	665
Cost of commissions	1,828	1,831	5,282	5,502
Total cost of revenues	2,268	2,419	6,576	7,182
Gross profit	5,375	5,187	16,023	15,613
Operating expenses				
Selling, general and administrative	5,344	5,507	16,867	16,843
Research and development	180	172	599	474
Total operating expenses	5,524	5,679	17,466	17,317
Operating loss	(149)	(492)	(1,443)	(1,704)
Other income (expense)				
Interest and other income, net	52	(63)	150	20
Total other income, net	52	(63)	150	20
Loss before income taxes	(97)	(555)	(1,293)	(1,684)
Income tax (expense) benefit	(26)	91	(50)	35
Net loss	(123)	(464)	(1,343)	(1,649)
Other comprehensive loss				
Foreign currency translation gain (loss)	2	29	(28)	64
Comprehensive loss	\$(121)	\$(435)	\$(1,371)	\$(1,585)
Loss per common share				
- basic and diluted	\$(0.00)	\$(0.00)	\$(0.01)	\$(0.01)
Weighted average common shares outstanding				
- basic and diluted	155,186	157,864	155,319	160,796

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

Vasomedical, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(in thousands)

	Nine months ended	
	September 30, 2014	September 30, 2013
Cash flows from operating activities		
Net loss	\$(1,343)	\$(1,649)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities		
Depreciation and amortization	290	266
Loss on disposal of fixed assets	39	-
Provision for doubtful accounts and commission adjustments	(1)	23
Share-based compensation and arrangements	320	300
Amortization of deferred consulting expense	-	87
Changes in operating assets and liabilities:		
Accounts and other receivables	6,396	4,304
Receivables due from related parties	-	6
Inventories, net	(332)	71
Deferred commission expense	(75)	521
Other current assets	(123)	(138)
Other assets	(1,639)	(349)
Accounts payable	(72)	99
Accrued commissions	(55)	(746)
Accrued expenses and other liabilities	(1,203)	(678)
Sales tax payable	(48)	(13)
Deferred revenue	218	(2,875)
Other long-term liabilities	214	195
Net cash provided by (used in) operating activities	2,586	(576)
Purchases of property, equipment and software	(227)	(126)
Purchases of short-term investments	(40)	(111)
Redemption of short-term investments	40	111
Acquisition of Genwell	(1,136)	
Cash acquired through purchase of Genwell	113	-
Net cash used in investing activities	(1,250)	(126)
Cash flows from financing activities		
Repurchase of common stock	(244)	(1,602)
Net cash used in financing activities	(244)	(1,602)
Effect of exchange rate differences on cash and cash equivalents	1	(18)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,093	(2,322)
Cash and cash equivalents - beginning of period	7,961	11,469
Cash and cash equivalents - end of period	\$9,054	\$9,147

SUPPLEMENTAL DISCLOSURE OF CASH INFORMATION

Interest paid	\$-	\$-
Income taxes paid	\$48	\$61

SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES

Inventories transferred to property and equipment, attributable to operating leases, net	\$5	\$57
Note issued for acquisition	\$1,017	\$-

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

Vasomedical, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

NOTE A - ORGANIZATION AND PLAN OF OPERATIONS

Vasomedical, Inc. was incorporated in Delaware in July 1987. Unless the context requires otherwise, all references to “we”, “our”, “us”, “Company”, “registrant”, “Vasomedical” or “management” refer to Vasomedical, Inc. and its subsidiaries. The Company until July 2014 had been operating in two distinct business segments, the Sales Representation segment and the Equipment segment. 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 the Equipment segment we design, manufacture, market and support certain medical devices. Our principal products in this segment are Enhanced External Counterpulsation (EECP®) systems, which are non-invasive therapy devices based on our proprietary technology, and currently indicated in the United States for the treatment of refractory angina and used for other ischemic diseases overseas. In addition we develop, manufacture and market certain ambulatory patient monitoring systems including recorders and analysis software.

In September 2011, the Company acquired Fast Growth Enterprises Limited (FGE), a British Virgin Islands company which owns and controls two Chinese operating companies - Life Enhancement Technologies Ltd. (“LET”) and Biox Instruments Co. Ltd. (“Biox”), respectively – to expand its technical and manufacturing capabilities and to enhance its distribution network, technology, and product portfolio. Also in September 2011, the Company restructured to further align its business management structure and long-term growth strategy and started to operate through three wholly-owned subsidiaries. Vaso Diagnostics 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 Chinese companies; and Vasomedical Solutions, Inc. manages and coordinates our EECP® therapy business as well as other medical equipment operations.

In April 2014, the Company announced that it entered into an agreement with Chongqing PSK-Health Sci-Tech Development Co., Ltd. (“PSK”) of Chongqing, China, the leading manufacturer of ECP therapy systems in China, to form a joint venture company, VSK Medical Limited (“VSK”), for the global marketing, sale and advancement of ECP therapy technology. The joint venture is in the early implementation phase and had not begun operations as of September 30, 2014.

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

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

Note K.

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

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Vasomedical, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

NOTE B - BASIS OF PRESENTATION AND CRITICAL ACCOUNTING POLICIES

Basis of Presentation and Use of Estimates

The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and pursuant to the accounting and disclosure rules and regulations of the Securities and Exchange Commission (the "SEC"). Certain information and disclosures normally included in the condensed consolidated financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations. Accordingly, these condensed consolidated financial statements should be read in connection with the audited consolidated financial statements and related notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013, as filed with the SEC. These condensed consolidated financial statements include the accounts of the companies over which we exercise control. In the opinion of management, the accompanying condensed consolidated financial statements reflect all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of interim results for the Company. The results of operations for any interim period are not necessarily indicative of results to be expected for any other interim period or the full year.

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

Significant Accounting Policies

Note B of the Notes to Consolidated Financial Statements, included in the Annual Report on Form 10-K for the year ended December 31, 2013, includes a summary of the significant accounting policies used in the preparation of the condensed consolidated financial statements.

Revenue and Expense Recognition for VasoHealthcare

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

Reclassifications

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

NOTE C – SEGMENT REPORTING AND CONCENTRATIONS

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

Vasomedical, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

(in thousands)

As of or for the three months ended September 30, 2014

	Sales				
	Representation Segment	Equipment Segment	IT Segment	Corporate	Consolidated
Revenues from external customers	\$6,409	\$1,234	\$-	\$-	\$ 7,643
Operating (loss) income	\$723	\$(405)	\$(82)	\$(385)	\$(149)
Total assets	\$13,341	\$9,909	\$2	\$9,067	\$ 32,319
Accounts and other receivables, net	\$6,376	\$791	\$-	\$-	\$ 7,167
Deferred commission expense	\$4,763	\$-	\$-	\$-	\$ 4,763

As of or for the three months ended September 30, 2013

	Sales				
	Representation Segment	Equipment Segment	IT Segment	Corporate	Consolidated
Revenues from external customers	\$5,862	\$1,744	\$-	\$-	\$ 7,606
Operating (loss) income	\$199	\$(364)	\$-	\$(327)	\$(492)
Total assets	\$8,040	\$8,398	\$-	\$8,972	\$ 25,410
Accounts and other receivables, net	\$3,510	\$1,229	\$-	\$-	\$ 4,739
Deferred commission expense	\$4,145	\$-	\$-	\$-	\$ 4,145

As of or for the nine months ended September 30, 2014

	Sales				
	Representation Segment	Equipment Segment	IT Segment	Corporate	Consolidated
Revenues from external customers	\$19,335	\$3,264	\$-	\$-	\$ 22,599
Operating (loss) income	\$2,267	\$(2,361)	\$(82)	\$(1,267)	\$(1,443)
Total assets	\$13,341	\$9,909	\$2	\$9,067	\$ 32,319
Accounts and other receivables, net	\$6,376	\$791	\$-	\$-	\$