

VASOMEDICAL, INC
Form 10-Q
November 13, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2015

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

Commission File Number: 0-18105

VASOMEDICAL, INC.

(Exact name of registrant as specified in its charter)

Delaware 11-2871434
(State or other jurisdiction of (IRS Employer Identification Number)
incorporation or organization)

137 Commercial Street, Suite 200, Plainview, New York 11803
(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 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 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

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Number of Shares Outstanding of Common Stock, \$.001 Par Value, at November 8, 2015 – 158,412,283

Page 1

Vasomedical, Inc. and Subsidiaries

INDEX

<u>PART I – FINANCIAL INFORMATION</u>	<u>3</u>
<u>ITEM 1 - FINANCIAL STATEMENTS</u>	<u>3</u>
<u>CONDENSED CONSOLIDATED BALANCE SHEETS as of September 30, 2015 (unaudited) and December 31, 2014</u>	<u>3</u>
<u>CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS) (unaudited) for the Three and Nine Months Ended September 30, 2015 and 2014</u>	<u>4</u>
<u>CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY for the Nine Months Ended September 30, 2015 (unaudited) and the Year Ended December 31, 2014</u>	<u>5</u>
<u>CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited) for the Nine Months Ended September 30, 2015 and 2014</u>	<u>6</u>
<u>NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)</u>	<u>7</u>
<u>ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	<u>18</u>
<u>ITEM 4 - CONTROLS AND PROCEDURES</u>	<u>23</u>
<u>PART II - OTHER INFORMATION</u>	<u>25</u>
<u>ITEM 6 – EXHIBITS</u>	<u>25</u>

PART I – FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

Vasomedical, Inc. and Subsidiaries

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)

	September 30, 2015	December 31, 2014
ASSETS		
(unaudited)		
CURRENT ASSETS		
Cash and cash equivalents	\$1,928	\$9,128
Short-term investments	109	111
Accounts and other receivables, net of an allowance for doubtful accounts and commission adjustments of \$4,265 at September 30, 2015 and \$4,571 at December 31, 2014	8,732	15,273
Receivables due from related parties	106	21
Inventories, net	1,950	1,898
Deferred commission expense	2,583	2,200
Prepaid expenses and other current assets	515	363
Total current assets	15,923	28,994
PROPERTY AND EQUIPMENT, net of accumulated depreciation of \$2,745 at September 30, 2015 and \$1,397 at December 31, 2014	2,928	266
GOODWILL	22,582	3,288
INTANGIBLES, net	2,447	2,826
OTHER ASSETS	3,504	5,617
	\$47,384	\$40,991
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$3,604	\$462
Accrued commissions	1,746	2,247
Accrued expenses and other liabilities	4,259	5,627
Sales tax payable	612	247
Deferred revenue - current portion	11,174	9,882
Notes payable - current portion	1,654	163
Deferred tax liability, net	112	112
Notes payable due to related party	997	1,039
Total current liabilities	24,158	19,779
LONG-TERM LIABILITIES		
Notes payable	5,007	-
Deferred revenue	8,576	12,650
Other long-term liabilities	539	811
Total long-term liabilities	14,122	13,461
COMMITMENTS AND CONTINGENCIES (NOTE N)		
STOCKHOLDERS' EQUITY		
Preferred stock, \$.01 par value; 1,000,000 shares authorized; nil shares		

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issued and outstanding at September 30, 2015, and December 31, 2014	-	-
Common stock, \$.001 par value; 250,000,000 shares authorized; 168,720,370 and 166,435,370 shares issued at September 30, 2015 and December 31, 2014, respectively; 158,412,283 and 156,127,283 shares outstanding at September 30, 2015 and December 31, 2014, respectively	169	166
Additional paid-in capital	62,222	61,924
Accumulated deficit	(51,267)	(52,433)
Accumulated other comprehensive income	(20)	94
Treasury stock, at cost, 10,308,087 shares at September 30, 2015 and December 31, 2014	(2,000)	(2,000)
Total stockholders' equity	9,104	7,751
	\$47,384	\$40,991

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

Page 3

Vasomedical, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

(Unaudited)

(in thousands, except per share data)

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Revenues				
Professional sales services	\$ 7,584	\$ 6,409	\$ 21,010	\$ 19,335
Managed IT systems and services	8,800	-	11,611	-
Equipment sales and services	1,017	1,234	3,077	3,264
Total revenues	17,401	7,643	35,698	22,599
Cost of revenues				
Cost of professional sales services	1,701	1,828	4,748	5,282
Cost of managed IT systems and services	5,308	-	6,921	-
Cost of equipment sales and services	542	440	1,283	1,294
Total cost of revenues	7,551	2,268	12,952	6,576
Gross profit	9,850	5,375	22,746	16,023
Operating expenses				
Selling, general and administrative	8,355	5,344	21,059	16,867
Research and development	158	180	430	599
Total operating expenses	8,513	5,524	21,489	17,466
Operating income (loss)	1,337	(149)	1,257	(1,443)
Other income (expense)				
Interest and financing costs	(148)	-	(265)	(1)
Interest and other income, net	79	52	225	151
Total other income (expense), net	(69)	52	(40)	150
Income (loss) before income taxes				
Income (loss) before income taxes	1,268	(97)	1,217	(1,293)
Income tax expense	(38)	(26)	(51)	(50)
Net income (loss)	1,230	(123)	1,166	(1,343)
Other comprehensive income				
Foreign currency translation (loss) gain	(145)	2	(114)	(28)
Comprehensive income (loss)	\$ 1,085	\$ (121)	\$ 1,052	\$ (1,371)
Income (loss) per common share				
- basic	\$ 0.01	\$ (0.00)	\$ 0.01	\$ (0.01)

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- diluted	\$	0.01	\$	(0.00)	\$	0.01	\$	(0.01)
Weighted average common shares outstanding								
- basic		157,288		155,186		156,502		155,319
- diluted		157,782		155,186		156,868		155,319

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

Vasomedical, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands)

	Common Stock		Treasury Stock		Additional	Accumulated	Accumulated	Total
	Shares	Amount	Shares	Amount	Paid-in-Capital	Deficit	Other Comprehensive Income	Stockholders' Equity
Balance at December 31, 2013	164,705	165	(9,481)	(1,755)	61,508	(53,561)	108	6,465
Repurchase of shares	-	-	(827)	(245)	-	-	-	(245)
Share-based compensation	1,280	1	-	-	389	-	-	390
Shares not issued for employee tax liability	-	-	-	-	(9)	-	-	(9)
Exercise of stock options	450	-	-	-	36	-	-	36
Foreign currency translation loss	-	-	-	-	-	-	(14)	(14)
Net income	-	-	-	-	-	1,128	-	1,128
Balance at December 31, 2014	166,435	\$ 166	(10,308)	\$ (2,000)	\$ 61,924	\$ (52,433)	\$ 94	\$ 7,751
Share-based compensation	2,285	3	-	-	298	-	-	301
Foreign currency translation loss	-	-	-	-	-	-	(114)	(114)
Net income	-	-	-	-	-	1,166	-	1,166
Balance at September 30, 2015 (unaudited)	168,720	\$ 169	(10,308)	\$ (2,000)	\$ 62,222	\$ (51,267)	\$ (20)	\$ 9,104

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

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

(in thousands)

	Nine months ended September 30,	
	2015	2014
Cash flows from operating activities		
Net income (loss)	\$ 1,166	\$ (1,343)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation and amortization	783	290
Loss on disposal of fixed assets	-	39
Provision for doubtful accounts and commission adjustments	109	(1)
Share-based compensation and arrangements	301	320
Changes in operating assets and liabilities:		
Accounts and other receivables	7,860	6,396
Receivables due from related parties	(85)	
Inventories, net	(221)	(332)
Deferred commission expense	(382)	(75)
Other current assets	(53)	(123)
Other assets	2,274	(1,639)
Accounts payable	(5)	(72)
Accrued commissions	(548)	(55)
Accrued expenses and other liabilities	(2,129)	(1,203)
Sales tax payable	(68)	(48)
Deferred revenue	(2,782)	218
Notes payable due to related party	(42)	-
Other long-term liabilities	(299)	214
Net cash provided by operating activities	5,879	2,586
Cash flows from investing activities		
Purchases of equipment and software	(619)	(227)
Purchases of short-term investments	(38)	(40)
Redemption of short-term investments	40	40
Acquisition of Genwell	-	(1,136)
Cash acquired through purchase of Genwell	-	113
Acquisition of Netwolves	(18,000)	-
Cash acquired through purchase of Netwolves	733	-
Investment in VSK	(100)	-
Net cash used in investing activities	(17,984)	(1,250)
Cash flows from financing activities		
Net borrowings on revolving line of credit	136	-
Repurchase of common stock	-	(244)
Repayment of notes payable	(83)	-
Proceeds from note payable	4,800	-
	4,853	(244)

Net cash provided by (used in) financing activities		
Effect of exchange rate differences on cash and cash equivalents	52	1
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		
	(7,200)	1,093
Cash and cash equivalents - beginning of period	9,128	7,961
Cash and cash equivalents - end of period	\$ 1,928	\$ 9,054
SUPPLEMENTAL DISCLOSURE OF CASH INFORMATION		
Interest paid	\$ 66	\$ -
Income taxes paid	\$ 130	\$ 48
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Inventories transferred to property and equipment,		
attributable to operating leases, net	\$ 138	\$ 5
Note issued for acquisition	\$ -	\$ 1,017

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

Vasomedical, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

NOTE A - ORGANIZATION AND PLAN OF OPERATIONS

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

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

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

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

In August 2014, the Company, through its wholly owned subsidiary Wuxi Gentone Instruments Co. Ltd. (Gentone), acquired all of the outstanding shares of Genwell Instruments Co. Ltd. (Genwell), located in Wuxi, China. 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.

In May 2015, the Company entered into an agreement for, and completed its purchase of, all of the assets of NetWolves, LLC and its affiliates, including the membership interests in NetWolves Network Services LLC (collectively, “NetWolves”). The purchase of NetWolves was accomplished pursuant to an Asset Purchase

Agreement. As a result, the Company effectively purchased all rights, titles and ownership of all assets held by NetWolves. 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, as well as the opportunity to expand NetWolves' existing services to the healthcare IT market.

Vasomedical, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

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 and NetWolves operations report under the IT segment.

NOTE B - BASIS OF PRESENTATION AND CRITICAL ACCOUNTING POLICIES

Basis of Presentation and Use of Estimates

The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and pursuant to the accounting and disclosure rules and regulations of the Securities and Exchange Commission (the "SEC"). Certain information and disclosures normally included in the unaudited condensed consolidated financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations. Accordingly, these condensed consolidated financial statements should be read in connection with:

- 1) The audited consolidated financial statements and related notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014, as filed with the SEC on March 30, 2015.
- 2) The audited consolidated financial statements of NetWolves, LLC and related notes thereto included in the Form 8-K/A filed with the SEC on August 12, 2015. The operating results of NetWolves from May 29, 2015 to September 30, 2015 are included in the accompanying condensed consolidated statements of operations and comprehensive income (loss) for the three and nine month periods ended September 30, 2015.

These unaudited condensed consolidated financial statements include the accounts of the companies over which we exercise control. In the opinion of management, the accompanying condensed consolidated financial statements reflect all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of interim results for the Company. The results of operations for any interim period are not necessarily indicative of results to be expected for any other interim period or the full year.

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

Significant Accounting Policies

Note B of the Notes to Consolidated Financial Statements, included in the Annual Report on Form 10-K for the year ended December 31, 2014, and Note B of the Notes to Consolidated Financial Statements for the year ended December 31, 2014, included on Form 8-K/A, include a summary of the significant accounting policies used in the preparation of the condensed consolidated financial statements.

Revenue Recognition

The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred or service has been rendered, the price is fixed or determinable and collectability is reasonably assured.

Revenue and Expense Recognition for the Sales Representation Segment

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

Vasomedical, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

Variable Interest Entities

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

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

	(in thousands)	
	As of September 30, 2015	As of December 31, 2014
	(unaudited)	
Cash and cash equivalents	\$ 119	\$ 159
Total assets	\$ 1,037	\$ 1,047
Total liabilities	\$ 1,040	\$ 878

	(in thousands)			
	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Total net revenue	\$ 358	\$ 368	\$ 1,183	\$ 1,126
Net income (loss)	\$ 24	\$ (152)	\$ (199)	\$ (382)

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 three segments – the Sales Representation segment, the Equipment segment, and the IT segment. The Sales Representation segment operates through the Vaso Diagnostics subsidiary and is currently engaged solely in the fulfillment of the Company's responsibilities under our agreement with GEHC. The IT segment includes the operations of NetWolves and VasoHealthcare IT Corp. Operations in the IT segment began in the third quarter of 2014. 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 chief operating decision maker is the Company's Chief Executive Officer, who, in conjunction with upper management, evaluates segment performance based on operating income. Administrative functions such as finance,

human resources, and information technology are centralized and related expenses allocated to each segment. Other costs not directly attributable to operating segments, such as audit, legal, director fees, investor relations, and others, as well as certain assets – primarily cash balances – are reported in the Corporate entity below. There are no intersegment revenues. Summary financial information for the segments is set forth below:

Vasomedical, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

(in thousands)

As of or for the three months ended September 30, 2015 (unaudited)

	Sales		Equipment Segment	Corporate	Consolidated
	Representation Segment	IT Segment			
Revenues from external customers	\$7,584	\$8,800	\$1,017	\$-	\$ 17,401
Operating income (loss)	\$2,586	\$(187)	\$(582)	\$(480)	\$ 1,337
Total assets	\$11,408	\$24,642	\$9,293	\$2,041	\$ 47,384
Accounts and other receivables, net	\$5,663	\$2,253	\$816	\$-	\$ 8,732
Deferred commission expense	\$2,533	\$50	\$-	\$-	\$ 2,583
Other assets	\$2,720	\$51	\$623	\$110	\$ 3,504

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

	Sales		Equipment Segment	Corporate	Consolidated
	Representation Segment	IT Segment			
Revenues from external customers	\$6,409	\$-	\$1,234	\$-	\$ 7,643
Operating income (loss)	\$723	\$(82)	\$(405)	\$(385)	\$ (149)
Total assets	\$13,341	\$2	\$9,909	\$9,067	\$ 32,319
Accounts and other receivables, net	\$6,376	\$-	\$791	\$-	\$ 7,167
Deferred commission expense	\$2,388	\$-	\$-	\$-	\$ 2,388
Other assets	\$4,402	\$-	\$3,170	\$13	\$ 7,585