VASOMEDICAL INC
Form 10-Q
April 14, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the quarterly period ended February 28, 2009

[ ] 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 incorporation or organization)	(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 [X] 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 [X]
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 [X]

Number of Shares Outstanding of Common Stock, $.001 Par Value, at April 10, 2009
99,843,004

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ITEM 1. FINANCIAL STATEMENTS

Vasomedical, Inc. and Subsidiaries

CONSOLIDATED CONDENSED BALANCE SHEETS

ASSETS	February 28, 2 (Unaudited)
CURRENT ASSETS	
Cash and cash equivalents	$ 99
Short-term investment	29
Accounts receivable, net of an allowance for doubtful accounts of $101,453 at February 28, 2009, and $270,183 at May 31, 2008	68
Inventories, net	1,64
Other current assets	15
Total current assets	3,78
PROPERTY AND EQUIPMENT, net of accumulated depreciation of $1,882,625 at February 28, 2009, and $2,178,566 at May 31, 2008	14
DEFERRED DISTRIBUTOR COSTS, net of accumulated amortization of	

$182,392 at February 28, 2009, and $101,775 at May 31, 2008	38
OTHER ASSETS	19
	$ 4,50

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES	
Accounts payable and accrued expenses	$ 59
Sales tax payable	13
Deferred revenue - current portion	1,04
Deferred gain on sale-leaseback of building - current portion	5
Accrued professional fees	4
Due to related parties	20
Total current liabilities	2,06
LONG-TERM LIABILITIES	
Deferred revenue	39
Accrued rent expense	1
Deferred gain on sale-leaseback of building	12
Other long-term liabilities	1
Total long term liabilities	55
COMMITMENTS	
STOCKHOLDERS' EQUITY	
Preferred stock, $.01 par value; 1,000,000 shares authorized; none issued	
Common stock, $.001 par value; 200,000,000 shares authorized; 98,943,004 shares at February 28, 2009, and 93,768,004 at May 31, 2008, issued and outstanding	9
Additional paid-in capital	48,26
Accumulated deficit	(46,48
Total stockholders' equity	1,88
	$ 4,50

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

Vasomedical, Inc. and Subsidiaries

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
(Unaudited)

	Nine months ended February 28, 2009	Nine months ended February 29, 2008	Three m ended Fe 28 200
Revenues			

Equipment sales	$ 1,742,093	$ 1,517,985	$ 497
Equipment rentals and services	1,717,770	2,397,600	492
Total revenues	3,459,863	3,915,585	989
Cost of Sales and Services			
Cost of sales, equipment	1,245,601	1,174,214	354
Cost of equipment rentals and services	769,525	873,411	226
Total cost of sales and services	2,015,126	2,047,625	580
Gross profit	1,444,737	1,867,960	408
Operating Expenses			
Selling, general and administrative	2,297,189	1,932,645	668
Research and development	415,108	362,315	135
Total operating expenses	2,712,297	2,294,960	803
Loss from operations	(1,267,560)	(427,000)	(394
Other Income (Expenses)			
Interest and financing costs	-	(16,605)	
Interest and other income, net	48,670	47,513	12
Amortization of deferred gain on sale-leaseback of building	39,934	31,060	13
Total other income, net	88,604	61,968	25
Loss before income taxes	(1,178,956)	(365,032)	(369
Income tax expense, net	(7,697)	(14,197)	
Net loss applicable to common stockholders	$ (1,186,653)	$ (379,229)	$(369
Net loss per common share - basic and diluted	$ (0.01)	$ (0.00)	$ (
Weighted average common shares outstanding - basic and diluted	95,468,923	91,687,349	97,931

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

Vasomedical, Inc. and Subsidiaries

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

	Nine Months Ended Februar 28,
	2009

Cash flows used in operating activities	
Net loss	$ (1,186,6
Adjustments to reconcile net loss to net cash used in operating activities	
Depreciation and amortization of property and equipment	74,9
Amortization of deferred gain on sale-leaseback of building	(39,9
Provision for doubtful accounts	
Amortization of deferred distributor costs	80,6
Expenses paid for distributor agreement	
Stock-based compensation	141,3
Changes in operating assets and liabilities:	
Accounts receivable, net	33,1
Inventories, net	(110,2
Other current assets	(95,0
Accounts payable, deferred revenue accrued expenses and other current liabilities	(356,0
Other liabilities	(89,1
Due to related party	200,0
Net cash used in operating activities	(1,347,0
Cash flows provided by (used in) investing activities	
Proceeds from the building sale-leaseback	
Expenses paid for sale-leaseback of building	
Purchases of property and equipment	(10,3
Purchases of short-term investments	(299,0
Net cash provided by (used in) investing activities	(309,3
Cash flows provided by financing activities	
Payments on long term debt and notes payable	
Proceeds from Securities Purchase agreement	
Expenses paid in relation to Securities Purchase Agreement	
Net cash provided by financing activities	
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,656,4
Cash and cash equivalents - beginning of period	2,653,9
Cash and cash equivalents - end of period	$ 997,5
Non-cash investing and financing activities were as follows:	
Inventories transferred to property and equipment, attributable to operating leases, net	$ 116,9
Common stock issued for distribution agreement	$ 60,0

The accompanying notes are an integral part of these 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. Since 1995, we have been primarily engaged in designing, manufacturing, marketing and supporting EECP(R) 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.

NOTE B - BASIS OF PRESENTATION

Basis of Presentation and Use of Estimates

The accompanying consolidated condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S.GAAP") and pursuant to the accounting and disclosure rules and regulations of the Securities and Exchange Commission (the "SEC"). Certain information and disclosures normally included in the consolidated condensed financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations. Accordingly, these consolidated condensed financial statements should be read in connection with the audited consolidated financial statements and related notes thereto included in the Company's Annual Report for the year ended May 31, 2008, as filed with the SEC on Form 10-K. These consolidated condensed financial statements include the accounts of the Company over which it exercises 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 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 revenue and expenses and cash flows during the periods presented. Actual amounts and results could differ from those estimates. The estimates the Company makes are based on historical factors, current circumstances and the experience and judgment of the Company's management. The Company evaluates its assumptions and estimates on an ongoing basis and may employ third party experts to assist in the Company's evaluations.

NOTE C - LIQUIDITY

During the last several years, we incurred operating losses. We have attempted to achieve profitability by reducing operating costs and halting the trend of declining revenue, and to reduce cash usage through bringing our cost structure more into alignment with current revenues. By engaging in restructurings the Company has reduced personnel costs. The Company has negotiated new terms on professional fees, facility expenses, and shipping and supply costs. The Company is also looking to obtain a revolving line of credit to help stabilize cash flow and generate sales by offering potential customers extended payment terms on our EECP(R) therapy systems.

During the first quarter of fiscal year 2008, we raised capital through a private equity financing and by the sale of our facility under a leaseback agreement.

- On June 21, 2007, we entered into a Securities Purchase Agreement with Kerns Manufacturing Corp. (Kerns). Concurrently with our entry into the Securities Purchase Agreement, we also entered into a Distribution Agreement and a Supplier Agreement with Living Data Technology Corporation (Living Data), an affiliate of Kerns.

We sold to Kerns, pursuant to the Securities Purchase Agreement, 21,428,572 shares of our common stock at $.07 per share for an aggregate of $1,500,000, as well as a five-year warrant to purchase 4,285,714 shares of our common stock at an initial exercise price of $.08 per share (the Warrant). The agreement further provided for the appointment to our Board of Directors of two representatives of Kerns. In furtherance thereof, Jun Ma and Simon Srybnik, Chairman of both Kerns and Living Data, have been appointed members of our Board of Directors. On October 16, 2008, Mr. Jun Ma was appointed President and Chief Executive Officer of the Company. Pursuant to the Distribution Agreement, we have become the exclusive distributor in the United States of the AngioNew(R) ECP systems manufactured by Living Data. As additional consideration for such agreement, we agreed to issue an additional 6,990,840 shares of our common stock to Living Data. Pursuant to the Supplier Agreement, Living Data is now the exclusive supplier to us of the ECP therapy systems that we market under the registered trademark EECP(R). The Distribution Agreement and the Supplier Agreement each have an initial term extending through May 31, 2012.

Pursuant to a Registration Rights Agreement, we granted to Kerns and Living Data, subject to certain restrictions, "piggyback registration rights" covering the shares sold to Kerns as well as the shares issuable upon exercise of the Warrant and the shares issued to Living Data.

- On August 15, 2007, we sold our facility under a five-year leaseback agreement for $1.4 million. The net proceeds from the sale were approximately $425,000, after payment in full of the two secured notes on our facility, brokers fees, closing costs, and the opening of a certificate of deposit in accordance with the provisions of the new lease.

On November 20, 2008, the Company entered into an Amendment to the Distribution Agreement with Living Data to expand the territory covered in the Distribution Agreement to provide for exclusive distribution rights worldwide. In consideration for these rights, the Company agreed to issue Living Data 3,000,000 restricted shares of its common stock having a fair market value of $60,000 at time of issue.

NOTE D - STOCK-BASED COMPENSATION

The Company complies with Statement of Financial Standards No. 123 (revised 2004), Share-Based Payment ("SFAS No. 123 (R)"), SFAS No. 123(R) requires all share-based awards to employees, including grants of employee stock options, to be recognized in the consolidated condensed financial statements based on their

estimated fair values.

During the nine-month period ended February 28, 2009, the Company's Board of Directors did not grant any non-qualified stock options.

During the nine-month period ended February 28, 2009, the Company's Board of Directors granted 100,000 shares of common stock to one employee of the Company having a fair market value of $0.08 per share at the time of the respective grant.

During the nine-month period ended February 28, 2009, the Company's Board of Directors granted 2,000,000 shares of common stock to eight outside directors of the Company having a fair market value of $0.06 per share at the time of the respective grant.

During the nine-month period ended February 28, 2009, the Company's Board of Directors granted 75,000 shares of common stock to one outside director of the Company having a fair market value of $0.06 per share at the time of the respective grant.

Stock-based compensation expense recognized under SFAS No. 123(R) was $141,357 and $81,414 for the nine months ended February 28, 2009 and February 29, 2008, respectively. These expenses are included in selling, general, and administrative in the consolidated condensed statements of operations. The stock

based compensation expenses for each period reflect share-based awards outstanding during such period, including awards granted both prior and during such period. For purposes of estimating the fair value of each option on the date of grant, the Company utilized the Black-Scholes option-pricing model. The Black-Scholes option-pricing model was developed for use in estimating the fair value of share-based awards. In addition, Black-Scholes option pricing model requires the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

Share-based awards issued to non-employees in exchange for goods, fees and services are accounted for under the fair value-based method of SFAS No. 123(R).

NOTE E -LOSS PER COMMON SHARE

Basic loss per common share is computed as loss applicable to common stockholders divided by the weighted-average number of common shares outstanding for the period. Diluted loss per common share reflects the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted to common stock. However, since the company had net losses for all periods presented, diluted loss per common share is equal to basic loss per common share for those periods, as any potentially dilutive securities would become antidilutive.

Basic and diluted losses per common share were less than $0.01 and $0.01 for the three and nine months ended February 28, 2009 and less than $0.01 for the three and nine months ended February 29, 2008.

Stock options and warrants, in accordance with the following table, were excluded from the computation of diluted loss per share for the tree and nine months ended February 28, 2009 and February 29 2008, because the effect of their inclusion would be antidilutive.

	Three and Nine Months Ended February 28, 2009	Three and Nine Months Ended February 29, 2008
Stock options	4,847,977	5,886,710
Warrants	6,540,252	6,540,252
	11,388,229	12,426,962

NOTE F - FAIR VALUE MEASUREMENTS

The Company's assets recorded at fair value have been categorized based upon a fair value hierarchy in accordance with SFAS No. 157.

The following table presents information about the Company's assets and liabilities measured at fair value as of February 29, 2009:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets			
Cash equivalents invested in money market fund	$ 313,751	$ -	$ -
	$ 313,751	$ -	$ -

The fair values of the Company's cash equivalents unvested in money market fund are determined through market, observable and corroborated sources.

NOTE G - INVENTORIES

Inventories, net of reserves, consist of the following:

At February 28, 2009 and May 31, 2008, the Company had reserves for excess and obsolete inventory of $581,725 and $594,042, respectively.

	February 28, 2009	May 31, 2008
Raw materials	$ 758,352	$ 936,035
Work in process	519,558	603,925
Finished goods	368,012	112,718
	$ 1,645,922	$ 1,652,678

NOTE H - DEFERRED REVENUE

The changes in the Company's deferred revenues are as follows:

	Nine months ended February 28, 2009	Nine months ended February 29, 2008
Deferred revenue at the beginning of the period	$ 1,618,053	$ 1,756,352
Additions:		
Deferred extended service contracts	926,241	1,334,506
Deferred in-service and training	27,500	30,000
Deferred service arrangements	93,000	143,750
Deferred service arrangement obligations	600	8,850
Recognized as revenue:		
Deferred extended service contracts	(1,046,066)	(1,575,282)
Deferred in-service and training	(27,500)	(17,500)
Deferred service arrangements	(146,327)	(110,796)
Deferred service arrangement obligations	(2,400)	(13,350)
Deferred revenue at end of period	1,443,101	1,556,530
Less: current portion	1,046,664	1,177,547
Long-term deferred revenue at end of period	$ 396,437	$ 378,983

NOTE I - RELATED-PARTY TRANSACTIONS

On June 21, 2007, we entered into a Securities Purchase Agreement with Kerns. Concurrently with our entry into the Securities Purchase Agreement, we also entered into a Distribution Agreement and a Supplier Agreement with Living Data, an affiliate of Kerns.

We sold to Kerns, pursuant to the Securities Purchase Agreement, 21,428,572 shares of our common stock at $.07 per share for an aggregate of $1,500,000, as well a five-year warrant to purchase 4,285,714 shares of our common stock at an initial exercise price of $.08 per share (the "Warrant"). The agreement further provided for the appointment to our Board of Directors of two representatives of Kerns. In furtherance thereof, Jun Ma and Simon Srybnik, Chairman of both Kerns and Living Data, have been appointed members of our Board of Directors. Pursuant to the Distribution Agreement, we have become the exclusive distributor in the United States of the AngioNew ECP systems manufactured by Living Data. As additional consideration for such agreement, we agreed to issue an additional 6,990,840 shares of our common stock to Living Data. Pursuant to the Supplier Agreement, Living Data is now the exclusive supplier to us of the ECP therapy systems that we market under the registered trademark EECP(R). The Distribution Agreement and the Supplier Agreement each have an initial term extending through May 31, 2012.

On November 20, 2008, the Company entered into an Amendment to the Distribution Agreement with Living Data to expand the territory covered in the Distribution Agreement to provide for exclusive distribution rights worldwide. In consideration for these rights, the Company agreed to issue Living Data 3,000,000 restricted shares of its common stock having a fair market value of $60,000 at time of issue.

Pursuant to a Registration Rights Agreement, we granted to Kerns and Living Data, subject to certain restrictions, "piggyback registration rights" covering the shares sold to Kerns as well as the shares issuable upon exercise of the Warrant and the shares issued to Living Data.

On July 10, 2007, the Board of Directors appointed Behnam Movaseghi, Treasurer and Chief Financial Officer of Kerns Manufacturing Corporation, to our Board of Directors.

As affiliates of Living Data and Kerns, Mr. Movaseghi and Mr. Srybnik have each been directly involved in the transactions between Living Data or Kerns, on the one hand, and the Company, on the other hand, with respect to the Securities Purchase Agreement, the Distribution Agreement and the Supplier Agreement, as well as providing consulting services to the Company without compensation.

During the nine-month period ended February 28, 2009, the Company purchased ECP therapy systems under the Supplier Agreement for $595,000 from Living Data. Payment terms on certain purchases leave a balance of $200,000 in due to related party - current portion on the accompanying consolidated condensed balance sheet as of February 28, 2009. During the nine-month period ended February 29, 2008, the Company purchased ECP therapy systems under the Supplier Agreement for $120,000. In addition, during the nine-month periods ended February 28, 2009 and February 29, 2008, Living Data purchased $3,162, and $5,289 worth of ECP therapy system components from the Company, respectively.

During the nine-month period ended February 28, 2009, Living Data assigned to the Company all of its rights and interests under its Distributorship Agreement with a corporation organized and existing under the laws of the People's Republic of China that manufactures Ambulatory Blood Pressure Monitors, Ambulatory ECG (Holter) Recorders and Holter & ABPM Combiner Recorders, for $20,000 payable to Living Data based on certain terms and conditions. The

Company has also agreed to pay to Living Data 5% of the selling price or 5% of the cost of all goods sold (whichever is higher) and 5% of the cost of all goods transferred but not sold under the Assignment Agreement to Living Data based on sales of this equipment. The Company intends to sell these systems in the United States and other countries subject to obtaining regulatory clearance.

During the nine-month period ended February 28, 2009, Living Data assigned to the Company all of its rights and interests under its Distributorship Agreement with a corporation organized and existing under the laws of the People's Republic of China that manufactures Ultrasound Scanners, for $20,000 payable to Living Data based on certain terms and conditions. The Company has also agreed to pay to Living Data 5% of the selling price or 5% of the cost of all goods sold (whichever is higher) and 5% of the cost of all goods transferred but not sold under the Assignment Agreement to Living Data based on sales of this equipment. The Company intends to sell these systems in the United States and other countries subject to obtaining regulatory clearance.

Further, Kerns provides the Company, free of charge, part-time use of one of its Information Technology (IT) employees as well one of their IT consultants to provide the Company with IT and database support services. In addition, a clinical applications support specialist and a service engineer from Living Data may were used by the Company to provide customers with clinical training and technical service. The Company was charged $3,900 for the services of the clinical applications support specialist and $2,700 for the services of the service engineer during the nine-month period ended February 28, 2009.

NOTE J - COMMITMENTS

Leases

On August 15, 2007, we sold our facility under a five-year sale-leaseback agreement. Future rental payments under the operating lease are as follows:

For the years ended:

May 31, 2009	$ 36,040
May 31, 2010	148,488
May 31, 2011	154,427
May 31, 2012	160,604
May 31, 2013	40,541
Total	$ 540,100

NOTE K - RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS NOT YET EFFECTIVE

SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements" -- changes the way the consolidated income statement is presented. It requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. It also requires disclosure, on the face of the consolidated statement of income, of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest. Previously, net income attributable to the

noncontrolling interest generally was reported as an expense or other deduction in arriving at consolidated net income. It also was often presented in combination with other financial statement amounts. Effective for fiscal years beginning after December 15, 2008.

FSP APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)" -- clarifies that convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) are not addressed by paragraph 12 of APB Opinion No. 14, Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants. Additionally, this FSP specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years.

FSP FAS 142-3, "Determination of the Useful Life of Intangible Assets" -- amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, Goodwill and Other Intangible Assets. Paragraph 11(d) of Statement 142 precluded an entity from using its own assumptions about renewal or extension of an arrangement where there is likely to be substantial cost or material modifications. This FSP amends paragraph 11(d) of Statement 142 so that an entity will use its own assumptions about renewal or extension of an arrangement, adjusted for the entity-specific factors in paragraph 11 of Statement 142, even when there is likely to be substantial cost or material modifications. Therefore, in determining the useful life of the asset for amortization purposes, an entity shall consider the period of expected cash flows used to measure the fair value of the recognized intangible asset, adjusted for the entity-specific factors including, but are not limited to, the entity's expected use of the asset and the entity's historical experience in renewing or extending similar arrangements. This FSP shall be effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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 the healthcare environment; the impact of competitive procedures 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; uncertainties about the acceptance of a novel therapeutic modality by the medical community; 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.

General Overview

Vasomedical, Inc. was incorporated in Delaware in July 1987. Unless the context requires otherwise, all references to "we", "our", "us", "Company", "registrant", "Vasomedical" or "management" refer to Vasomedical, Inc. and its subsidiaries. Since 1995, we have been primarily engaged in designing, manufacturing, marketing and supporting EECP(R) enhanced external counterpulsation systems based on our unique proprietary technology currently indicated for use in cases of stable or unstable angina (i.e., chest pain), congestive heart failure (CHF), acute myocardial infarction (i.e., heart attack, (MI)) and cardiogenic shock. The EECP(R) therapy is a non-invasive, outpatient treatment of diseases of the cardiovascular system. The therapy serves to increase circulation in areas of the heart with less than adequate blood supply and helps to restore systemic vascular function. The therapy also increases blood flow and oxygen supply to the heart muscle and other organs and decreases the heart's workload and reduces oxygen demand, while also improving function of the endothelium, the lining of blood vessels throughout the body, lessening resistance to blood flow. We provide hospitals, clinics and physician private practices with EECP(R) equipment, treatment guidance, and a staff training and equipment maintenance program designed to provide optimal patient outcomes. EECP(R) is a registered trademark for Vasomedical's enhanced external counterpulsation therapy and systems. For more information, visit www.vasomedical.com.

We have FDA clearance to market our EECP(R) therapy for use in the treatment of stable and unstable angina, congestive heart failure, acute myocardial infarction, and cardiogenic shock; however, our current marketing efforts are limited to the treatment of chronic stable angina and congestive heart failure. Medicare and other third-party payers currently reimburse for the treatment of angina pectoris patients with moderate to severe symptoms who are refractory to medications and not candidates for invasive procedures. Patients with co-morbidities of heart failure, diabetes, peripheral vascular disease, etc. are also reimbursed under the same criteria, provided the primary diagnosis and indication for treatment with EECP(R) therapy is angina symptoms.

During the last several years, we incurred operating losses. We have attempted to achieve profitability by reducing operating costs and halting the trend of declining revenue, and to reduce cash usage through bringing our cost structure more into alignment with current revenues. By engaging in restructurings the Company has reduced personnel costs. The Company has negotiated new terms on professional fees, facility expenses, and shipping and supply costs. The Company is also looking to obtain a revolving line of credit to help stabilize cash flow and generate sales by offering potential customers extended payment terms on our EECP(R) therapy systems.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Market Overview

Cardiovascular disease (CVD) is the leading cause of death in the world and is among the top three diseases in terms of healthcare spending in nearly every country. CVD claimed approximately 2.4 million lives in the United States in 2005 and was responsible for 1 of every 5 deaths, according to The American Heart Association (AHA) Heart and Stroke Statistical 2009 Update (2009 Update).

Approximately 80 million Americans suffer from some form of cardiovascular disease. Among these, 16.8 million have coronary heart disease (CHD).

We have FDA clearance to market our EECP(R) therapy for use in the treatment of stable and unstable angina, congestive heart failure, acute myocardial infarction, and cardiogenic shock; however, our current marketing efforts are mostly limited to the treatment of chronic stable angina and congestive heart failure. Medicare and other third-party payers currently reimburse for the treatment of angina pectoris patients with moderate to severe symptoms who are refractory to medications and who, in the opinion of a cardiologist or cardiothoracic surgeon, are not candidates for invasive procedures. Patients with co-morbidities of heart failure, diabetes, peripheral vascular disease, etc. are also reimbursed under the same criteria, provided the primary diagnosis and indication for treatment with EECP(R) therapy is refractory angina symptoms.

Angina

Angina pectoris is the medical term for a recurring pain or discomfort in the chest due to coronary artery disease (CAD). Angina is a symptom of a condition called myocardial ischemia, which occurs when the heart muscle or myocardium doesn't receive sufficient blood, hence as much oxygen, as it needs. This usually happens because one or more of the heart's arteries, the blood vessels that supply blood to the heart muscle, is narrow or blocked. Insufficient blood supply to meet the need of the organ to function is called ischemia.

The cardinal symptom of stable CAD is anginal chest pain or equivalent symptoms, such as exertional dyspnea or fatigue. Angina is uncomfortable pressure, fullness, squeezing or pain, usually occurring in the center of the chest under the breastbone. The discomfort also may be felt in the neck, jaw, shoulder, back or arm. Often the patient suffers not only from the discomfort of the symptom itself but also from the accompanying limitations on activities and the associated anxiety that the symptoms may produce. Uncertainty about prognosis may be an additional source of anxiety. For some patients, the predominant symptoms may be palpitations or syncope that is caused by arrhythmias or fatigue, edema, or orthopnea caused by heart failure. Episodes of angina occur when the heart's need for oxygen increases beyond the oxygen available from the blood nourishing the heart. Physical exertion is the most common trigger, but not the only one for angina. For example, running to catch a bus could trigger an attack of angina while walking might not. Angina may happen during exercise, periods of emotional stress, exposure to extreme cold or heat, heavy meals, alcohol consumption or cigarette smoking. Some people, such as those with a coronary artery spasm, may have angina when they are resting.

There are approximately 6.4 million angina patients in the United States and our EECP(R) therapy currently competes with other technologies in the market for approximately 100,000 to 150,000 new refractory angina patients annually who do not adequately respond to or are not amenable to medical and surgical therapy and have the potential to meet the guidelines for reimbursement of EECP(R) therapy. Most angina patients are treated with medications, including beta blockers to slow and protect the heart, and vasodilators which are often prescribed to increase blood flow to the coronary arteries. When drugs fail or inadequately correct the problem, the patients are considered unresponsive to medical therapy. Most angina patients are readily amenable to invasive revascularization procedures such as angioplasty and coronary stent placement, as well as coronary artery bypass grafting (CABG). However, there are approximately 100,000 to 150,000 angina patients each year whose angina can not be stopped by medication and they are no longer readily amenable to palliative invasive procedures.

In February 1999, the Centers for Medicare and Medicaid Services (CMS), the

federal agency that administers the Medicare program for more than 39 million beneficiaries, issued a national coverage policy for the use of external

counterpulsation therapy in the treatment of refractory angina. Medicare reimbursement guidelines have a significant impact in determining the available market for EECP(R) therapy. We believe that over 65% of the patients that receive EECP(R) therapy are Medicare patients and many of the third-party payers follow Medicare guidelines, which limit reimbursement for EECP(R) therapy to patients who do not adequately respond to medical therapy and are not readily amenable to invasive therapy. As a result, an important element of our strategy is to grow the market for EECP(R) therapy by expanding reimbursement coverage to include a broader range of angina patients than the current coverage policy provides and enable EECP(R) therapy to compete more with other therapies for ischemic heart disease. Please see the heading "Reimbursement" in the "Item-1 Business" section of this Form 10-KSB for a more detailed discussion of reimbursement issues.

Congestive Heart Failure (CHF)

CHF is a condition in which the heart loses its pumping capacity to supply the metabolic needs of all other organs. The condition affects both sexes and is most common in people over age 50. Symptoms include angina, shortness of breath, weakness, fatigue, swelling of the abdomen, legs and ankles, rapid or irregular heartbeat and low blood pressure. Causes range from chronic high blood pressure, heart-valve disease, heart attack, coronary artery disease, heartbeat irregularities, severe lung disease such as emphysema, congenital disease, cardiomyopathy, hyperthyroidism, severe anemia and others.

CHF is treated with medication and, sometimes, surgery on heart valves or the coronary arteries and, in certain severe cases, heart transplants. Left ventricular assist devices (LVADs) and the use of cardiac resynchronization and implantable defibrillators are useful in selected patients with heart failure. Still, no consensus therapy currently exists for CHF and patients must currently suffer their symptoms chronically and have a reduced life expectancy.

According to the 2009 Update, in 2005 approximately 3.2 million men and 2.5 million women in the United States had CHF and about 670,000 new cases of the disease occur each year. The prevalence of the disease is growing as a result of the aging of the population and the improved survival rate of people after heart attacks. Because the condition frequently entails visits to the emergency room and in-patient treatment centers, two-thirds of all hospitalizations for people over age 65 are due to CHF. The economic burden of congestive heart failure is enormous with an estimated cost to the health care system in 2005 in the United States of $37.2 billion. Congestive heart failure offers a good strategic fit with our current angina business and offers an expanded market opportunity for EECP(R) therapy. Unmet clinical needs in CHF are greater than those for angina, as there are few consensus therapies, invasive or otherwise, beyond medical management for the condition. It is noteworthy that data collected from the International EECP(R) Patient Registry(TM) (IEPR) at the University of Pittsburgh Graduate School of Public Health shows that approximately one-third of angina patients treated with EECP(R) also have a history of CHF and 70% to 80% have demonstrated positive outcomes from EECP(R) therapy.

We sponsored a pivotal, randomized clinical trial to demonstrate the efficacy of EECP(R) therapy in the most prevalent types of heart failure

patients. This trial, known as PEECH(TM) (Prospective Evaluation of EECP(R) in Congestive Heart Failure), was intended to provide additional evidence of the safety and efficacy of EECP(R) therapy in the treatment of mild-to-moderate heart failure and to support our application for expansion of the Medicare national reimbursement coverage policy to include mild-to-moderate heart failure as a primary indication. The PEECH(TM) trial was a positive clinical trial, having met the statistical requirement of meeting at least one of its co-primary endpoints, a significant difference in the proportion of patients satisfying a prespecified threshold of improvement in exercise duration. The trial also demonstrated significant improvements in favor of EECP(R) therapy on several important secondary endpoints, including exercise duration and improvement in symptom status and quality of life. Measures of change in peak oxygen consumption were not statistically significant in the overall study population, though a trend favoring EECP(R) therapy was present in early follow-up. Patients in the trial who had an ischemic etiology (i.e. pre-existing coronary artery disease), demonstrated a greater response to EECP(R) therapy than those who had an idiopathic (non-ischemic) etiology.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The preliminary results of the PEECH(TM) trial were presented at the American College of Cardiology scientific sessions in March 2005. On June 20, 2005, CMS accepted our application for expansion of reimbursement coverage of EECP(R) therapy to include patients with New York Heart Association (NYHA) Class II/III stable heart failure symptoms with an ejection fraction of less than or equal to 35% (i.e. chronic, stable, mild-to-moderate systolic heart failure as a primary indication), as well as patients with Canadian Cardiovascular Society Classification (CCSC) II (i.e. chronic, stable mild angina).

On June 23, 2005, CMS also received a request from a competing manufacturer of external counterpulsation therapy equipment to reconsider the reimbursement coverage policy. They requested expansion of coverage to include 1) treatment of congestive heart failure, to include NYHA Class II, III with a left ventricular ejection fraction (LVEF) less than or equal to 40%, and acute heart failure; 2) treatment of stable angina to include CCSC II angina; 3) treatment of acute myocardial infarction; and 4) treatment of cardiogenic shock. On September 15, 2005, the competing manufacturer also amended their request to include NYHA Class IV heart failure.

On March 20, 2006, CMS issued their Decision Memorandum regarding this reconsideration with the opinion "that the evidence is not adequate to conclude that external counterpulsation therapy is reasonable and necessary for the treatment of:

- CCSC II angina
- Heart Failure
  - NYHA Class II/III stable heart failure symptoms with an ejection fraction of less than or equal to 35%
  - NYHA Class II/III stable heart failure symptoms with an ejection fraction of less than or equal to 40%
  - NYHA Class IV heart failure
  - Acute heart failure
- Cardiogenic shock
- Acute myocardial infarction."

They did, however, reiterate in the decision memorandum that "Current

coverage as described in Section 20.20 of the Medicare National Coverage Determination (NCD) manual will remain in effect" for refractory angina patients.

On August 25, 2006 the results of the PEECH(TM) trial were initially published online by the Journal of the American College of Cardiology (JACC) and in print in its September 19, 2006 issue. JACC is the official journal of the American College of Cardiology.

In the November-December issue of the journal Congestive Heart Failure, a second report of results from the PEECH(TM) trial was published, focusing on the results of a prespecified subgroup analysis in trial patients age 65 and over. This analysis demonstrated a statistically positive response on both co-primary endpoints of the trial in patients receiving EECP(R) therapy versus those who did not, i.e. a significantly larger proportion of patients undergoing EECP(R) therapy met or exceeded prespecified thresholds of improvement in exercise duration and peak oxygen consumption. Moreover, the patients age 65 and older who received EECP(R) therapy demonstrated the greatest differences in exercise duration, peak oxygen consumption and functional class (symptom status) compared with those who did not receive EECP(R) therapy.

These papers were submitted to CMS and we were advised to continue to gather more clinical evidence for future submission.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

We will continue to educate the marketplace that EECP(R) therapy is a therapy for ischemic cardiovascular disease and that patients with a secondary diagnosis of heart failure, diabetes, peripheral vascular disease, etc. are also eligible for reimbursement under the current coverage policy, provided the primary indication for treatment with EECP(R) therapy is refractory angina or angina equivalent symptoms and the patient satisfies other listed criteria. Additionally, we intend to continue to pursue expansion of coverage for EECP(R) therapy with Medicare and other third-party payers as evidence of its clinical utility develops.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon the accompanying unaudited consolidated condensed financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"). The preparation of financial statements in conformity with U.S. GAAP requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses, and the related disclosures at the date of the financial statements and during the reporting period. Although these estimates are based on our knowledge of current events, our actual amounts and results could differ from those estimates. The estimates made are based on historical factors, current circumstances, and the experience and judgment of our management, who continually evaluate the judgments, estimates and assumptions and may employ outside experts to assist in the evaluations.

Certain of our accounting policies are deemed "critical," as they are both most important to the financial statement presentation and require management's most difficult, subjective or complex judgments as a result of the need to make estimates about the effect of matters that are inherently uncertain. For a discussion of our critical accounting policies, see "Management's Discussion and

Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended May 31, 2008, as management believes that there have been no significant changes regarding our critical accounting policies since such time.

Fair Value Measurements

Since May 31, 2008 the Company has adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurements" ("SFAS No. 157"), effective December 1, 2007. Under SFAS No. 157, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date.

In determining fair value, the Company uses various valuation approaches. SFAS No. 157 establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Company. Unobservable inputs reflect the Company's assumptions about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 - Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 securities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

Level 2 - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Short-term Investments

Since May 31, 2008 the Company has invested in six-month certificates of deposit. These investments are reported on the accompanying consolidated condensed balance sheet as "Short-term investment".

New Accounting Pronouncements

See Footnote K, "Recently Issued Accounting Pronouncements Not Yet Effective" to our unaudited consolidated condensed financial statements for a full description of recently issued accounting pronouncements including the date of adoption and effects on our results of operations and financial position, where applicable.

Consolidated Results of Operations

Three Months Ended February 28, 2009 and February 29, 2008

Net revenue from sales, leases and service of our EECP(R) systems for the three months ended February 28, 2009 and February 29, 2008, was $989,317 and $1,187,694, respectively, which represented a decrease of $198,377, or 17%. We reported a net loss attributable to common stockholders of $369,438 and $296,381 for the third quarter of fiscal 2009 and 2008, respectively. The increase in the net loss was primarily due to a decrease in service related revenues compared to the same period of the prior year.

Revenues

Revenue from equipment sales increased approximately 16% to $497,299 for the three-month period ended February 28, 2009 as compared to $427,445 for the same period in the prior year. The increase in equipment sales is due primarily to a 9% decrease in the average blended per unit sale price offset by a slight increase in the number of equipment shipments.

We believe the decline in the sales price per unit reflects weakened domestic demand in the refractory angina market, coupled with increased direct and indirect competition. We anticipate that demand for EECP(R) systems will remain soft unless there is greater clinical acceptance for the use of EECP(R) therapy in treating patients with angina or angina equivalent symptoms who meet the current reimbursement guidelines or an expansion of the current CMS national reimbursement policy to include some or all Class II & III heart failure patients. Patients with angina or angina equivalent symptoms eligible for reimbursement under current policies include many with serious comorbidities, such as heart failure, diabetes, peripheral vascular disease and/or others.

Our revenue from the sale of EECP(R) systems and related products to international distributors in the third quarter of fiscal 2009 increased approximately $348,895 compared to the same three-month period in the prior year reflecting increased sales volume. We believe this reflects an expansion of our international market.

Our revenue from equipment rental and services decreased 35% to $492,018 in the third quarter of fiscal 2009 from $760,249 in the third quarter of fiscal year 2008. Revenue from equipment rental and services represented 50% of total revenue in the third quarter of fiscal 2009 and 64% in the same quarter of fiscal 2008. The decrease in revenue generated from equipment rentals and services is due to a decrease in the service business, with respect to service contract sales, and service related income generated from units not under contract, as well as, a decrease in accessories and service parts shipped compared to the same quarter of the prior fiscal year.

Gross Profit

Gross profit declined to $408,411, or 41% of revenues, for the third quarter of fiscal 2009 compared to $531,446, or 45% of revenues, for the same quarter of fiscal 2008. Gross profits are dependent on a number of factors, particularly the mix of new and used EECP(R) systems and the mix of models sold, their respective average selling prices, the mix of EECP(R) units sold, rented or placed during the period, the ongoing costs of servicing EECP(R) systems, and certain fixed period costs, including facilities, payroll and insurance.

Selling, General and Administrative

Selling, general and administrative ("SG&A") expenses for the third quarter of fiscal 2009 and 2008 were $668,046, or 68% of revenues, and $732,351, or 62% of revenues, respectively, reflecting an decrease of $64,305 or approximately 9%. The decrease in SG&A expenditures in the third quarter of fiscal 2009 resulted primarily from decreased administrative expenses in wages and benefits, professional fees, and insurance expenses.

During the third quarter of fiscal 2009 and 2008, there were no changes in the Company's provision for doubtful accounts. The dollar amount change in the provision is the result of bad debt that was written-off during the third quarter of fiscal year 2009.

Research and Development

Research and development ("R&D") expenses of $135,154, or 14% of revenues, for the third quarter of fiscal 2009 increased by $17,841, or 15%, from $117,313, or 10% of revenues, for the third quarter of fiscal 2008. The increase is primarily attributable to an increase in expenses paid to fund clinical research studies, and product development costs, offset by a decrease in regulatory affairs expenses.

Interest and Other Income, Net

Interest and other income for the third quarter of 2009 and 2008, were $12,135 and $12,275, respectively. Interest income reflects interest earned on the Company's cash balances.

Amortization of Deferred Gain on Sale-leaseback of Building

The amortization of deferred gain on sale-leaseback of building for the third quarter of 2009 and 2008, were $13,311 and $13,312, respectively. The gain resulted from the Company's sale-leaseback of its facility.

Income Tax Expense

During the third quarter of fiscal 2009 we did not record a provision for income taxes and The Company incurred an expense of $95. During the third quarter of fiscal 2008, we recorded a provision for income taxes of $3,750.

Nine Months Ended February 28, 2009 and February 29, 2008

Net revenue from sales, leases and service of our EECP(R) systems for the nine months ended February 28, 2009 and February 29, 2008, was $3,459,863 and $3,915,585, respectively, which represented a decrease of $455,722, or 12%. We reported a net loss attributable to common stockholders of $1,186,653 and $379,229 for the first nine months of fiscal 2009 and 2008, respectively. The increase in the net loss was primarily due to increases in our operating expenses, and decreases in revenue from the comparative prior period.

Revenues Revenue from equipment sales increased $224,108, or approximately 15% to $1,742,093 for the nine-month period ended February 28, 2009 as compared to $1,517,985 for the same period in the prior year. The increase in equipment

sales is due primarily to a 23% increase in the number of equipment shipments offset by a moderate decrease in the average blended per unit sale price.

Our revenue from the sale of EECP(R) systems and related products to international distributors in the first nine months of fiscal 2009 increased approximately 94% compared to the same nine-month period in the prior year reflecting increased sales volume. We believe this reflects an expansion of our international market.

Our revenue from equipment rental and services decreased 28% to $1,717,770 in the first nine months of fiscal 2009 from $2,397,600 in the first nine months of fiscal year 2008. Revenue from equipment rental and services represented 50% of total revenue in the first nine months of fiscal 2009 and 61% in the same quarters of fiscal 2008. The decrease in revenue generated from equipment rentals and services is due to a decrease in the service business, with respect to service contract sales, and service related income generated from units not under contract, as well as, a decrease in accessories and service parts shipped compared to the same quarter of the prior fiscal year.

Gross Profit

Gross profit declined to $1,444,737, or 42% of revenues, for the first nine months of fiscal 2009 compared to $1,867,960, or 48% of revenues, for the same period of fiscal 2008. Gross profits are dependent on a number of factors, particularly the mix of new and used EECP(R) systems and the mix of models sold, their respective average selling prices, the mix of EECP(R) units sold, rented or placed during the period, the ongoing costs of servicing EECP(R) systems, and certain fixed period costs, including facilities, payroll and insurance.

Selling, General and Administrative

Selling, general and administrative ("SG&A") expenses for the first nine months of fiscal 2009 and 2008 were $2,297,189, or 66% of revenues, and $1,932,645, or 49% of revenues, respectively, reflecting an increase of $364,544 or approximately 19%. The increase in SG&A expenditures in the first nine months of fiscal 2009 resulted primarily from increased direct expenditures in sales and marketing. Administrative expenses increased as a result of increased expenditures in professional fees, and corporate expenses.

During the first nine months of fiscal 2009 there were no changes in the Company's provision for doubtful accounts. The dollar amount change in the provision is the result of bad debt that was written-off during the first nine months of fiscal year 2009. In the first nine months of fiscal 2008 we reversed the provision for doubtful accounts by $27,524.

Research and Development

Research and development ("R&D") expenses of $415,108, or 12% of revenues, for the first nine months of fiscal 2009 increased by $52,793, or 15%, from $362,315, or 9% of revenues, for the first nine months of fiscal 2008. The increase is primarily attributable to an increase in expenses paid to fund clinical research studies, and product development costs.

Interest Expense and Financing Costs

The Company had no interest expense and financing costs for the first nine months of fiscal 2009 and $16,605 in the same period of 2008. Interest expense primarily reflects interest on loans secured to refinance the November 2000 purchase of the Company's headquarters and warehouse facility. The decrease is a direct result of the sale-leaseback agreements for the Company's headquarters and warehouse facility, which occurred during the first quarter of fiscal 2008.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Interest and Other Income, Net

Interest and other income for the first nine months of 2009 and 2008, were $48,670 and $47,513, respectively. Interest income reflects interest earned on the Company's cash balances.

Amortization of Deferred Gain on Sale-leaseback of Building

The amortization of deferred gain on sale-leaseback of building for the first nine months of 2009 and 2008, were $39,934 and $31,060, respectively. The gain resulted from the Company's sale-leaseback of its facility.

Income Tax Expense

During the first nine months of fiscal 2009 and 2008, we recorded provision for income taxes of $7,697 and $14,197, respectively.

Liquidity and Capital Resources

Cash and Cash Flow

We have financed our operations primarily from working capital, a private equity financing, and by the sale of our facility under a leaseback agreement. At February 28, 2009, we had cash and cash equivalents of $997,592 and working capital of $1,711,645 compared to cash and cash equivalents of $2,653,999 and working capital of $2,851,901 at May 31, 2008.

Cash used in operating activities was $1,347,019 during the first nine months of fiscal 2009, which consisted of a net loss after non-cash adjustments of $929,674 and cash used by operating assets and liabilities of $417,345. The changes in the accounts balances primarily reflect increases in inventories of $110,222, including $116,978 of inventories transferred to property and equipment, and other current assets of $95,055, a decrease in accounts payable, accrued expenses, and other current liabilities of $356,085, and a decrease in other liabilities of $89,175 which were primarily offset by a decrease in accounts receivable of $33,192 and an increase in due to related party of $200,000. Net accounts receivable were 20% of revenues for the nine-month period ended February 28, 2009, as compared to 18% for the nine-month period ended February 29, 2008, and accounts receivable turnover was 5 times for the nine months ended February 28, 2009 and February 29, 2008.

Standard payment terms on our domestic equipment sales are generally net 30 to 90 days from shipment and do not contain "right of return" provisions. We have historically offered a variety of extended payment terms, including sales-type leases, in certain situations and to certain customers in order to expand the market for our EECP(R) therapy system products in the US and internationally. Such extended payment terms were offered in lieu of price concessions, in competitive situations, when opening new markets or geographies and for repeat customers. Extended payment terms cover a variety of negotiated terms, including payment in full - net 120, net 180 days or some fixed or variable monthly payment amount for a six to twelve month period followed by a balloon payment, if applicable. During the nine-month period ended February 28, 2009 there were no revenues generated from sales in which initial payment terms were greater than 90 days, and during the nine-month period February 29, 2008,

there were no revenues generated from sales in which initial payment terms were greater than 90 days and we offered no sales-type leases during either period. In general, reserves are calculated on a formula basis considering factors such as the aging of the receivables, time past due, and the customer's credit history and their current financial status. In most instances where reserves are required, or accounts are ultimately written-off, customers have been unable to successfully implement their EECP(R) therapy program. As we are creating a new market for the EECP(R) therapy and recognizing the challenges that some customers may encounter, we have opted, at times, on a customer-by-customer basis, to recover our equipment instead of pursuing other legal remedies, which has resulted in our recording of a reserve or a write-off.

Investing activities during the nine-month period ended February 28, 2009 was $309,388 and consisted of a purchase of six-month certificates of deposit for $299,074, and purchases of property and equipment of $10,314.

The Company had no financing activities during the nine-month period ended February 28, 2009.

The following table presents the Company's expected cash requirements for contractual obligations outstanding as of February 28, 2009.

	Total	Due thru 3/1/2009 and 2/28/2010	Due thru 3/1/2010 and 2/29/2012	Due thru 3/1/2012 and 2/28/2014	T
Operating Leases	$ 540,100	$ 147,046	$ 311,973	$ 81,082	
Total Contractual Cash Obligations	$ 540,100	$ 147,046	$ 311,973	$ 81,082	

Liquidity

During the last several years, we incurred operating losses. We have attempted to achieve profitability by reducing operating costs and halting the trend of declining revenue, and to reduce cash usage through bringing our cost structure more into alignment with current revenues. By engaging in restructurings the Company has reduced personnel costs. The Company has negotiated new terms on professional fees, facility expenses, and shipping and supply costs. The Company is also looking to obtain a revolving line of credit to help stabilize cash flow and generate sales by offering potential customers extended payment terms on our EECP(R) therapy systems.

Based on our current operations and the amounts received from the transactions described in Note C, we believe that we have sufficient working capital to continue our operations through at least February 28, 2010.

Effects of Current Economic Conditions

We do not believe that the current lack of credit available in the market

will have an impact on our revenue or on our results of operations.

ITEM 3. - QUANITATIVE AND QUALATATIVE DISCLOSURES ABOUT MARKET RISKS

See Item 7A in the Company's 2008 Annual Report on Form 10-K for information regarding quantitative and qualitative disclosures about market risk. No material change regarding this information has occurred since that filing.

ITEM 4T. - CONTROLS AND PROCEDURES

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of February 28, 2009, our disclosure controls and procedures are effective to provide reasonable assurances that such disclosure controls and procedures satisfy their objectives and that the information required to be disclosed by us in the reports we file under the Exchange Act is recorded, processed, summarized and reported within the required time periods. There were no changes during the fiscal quarter ended February 28, 2009 in our internal controls or in other factors that could have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1A - RISK FACTORS

There have been no material changes in the most significant risk factors in the three months ended February 28, 2009 from those risk factor set forth in Item 1A., "Risk Factors," to the Company's Annual Report on Form 10-K for the year ended May 31, 2008.

ITEM 6 - EXHIBITS:

Exhibits

31 Certifications of the Chief Executive Officer and the Chief Financial Officer pursuant to Rules 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32 Certifications of the Chief Executive Officer and the Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

In accordance with the requirements of the Exchange Act, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

VASOMEDICAL, INC.

By: /s/ Jun Ma

Jun Ma
President & Chief Executive Officer
(Principal Executive Officer)

/s/ Tarachand Singh

Tarachand Singh
Chief Financial Officer

Date: April 14, 2009