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 June30, 2016*

[ ] 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) |

137 Commercial St., 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 [X] 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 [X] No [ ]

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

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

Number of Shares Outstanding of Common Stock, $.001 Par Value, at August 9, 2016 – 163,461,353

INDEX

PART I – FINANCIAL INFORMATION

## ITEM 1 - FINANCIAL STATEMENTS

# Vasomedical, Inc. and Subsidiaries

## CONDENSED CONSOLIDATED BALANCE SHEETS

*(in thousands, except share and per share data)*

| | June 30, 2016 (unaudited) | December 31, 2015 |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | $ 5,622 | $ 2,160 |
| Short-term investments | - | 38 |
| Accounts and other receivables, net of an allowance for doubtful accounts and commission adjustments of $3,798 at June 30, 2016 and $3,863 at December 31, 2015 | 8,945 | 11,620 |
| Receivables due from related parties | 100 | 209 |
| Inventories, net | 1,671 | 1,963 |
| Deferred commission expense | 2,161 | 2,252 |
| Prepaid expenses and other current assets | 510 | 512 |
| Total current assets | 19,009 | 18,754 |
| | | |
| PROPERTY AND EQUIPMENT, net of accumulated depreciation of $2,963 at June 30, 2016 and $2,976 at December 31, 2015 | 3,354 | 2,888 |
| GOODWILL | 17,412 | 17,484 |
| INTANGIBLES, net | 6,488 | 6,977 |
| OTHER ASSETS, net | 3,813 | 4,315 |
| | $ 50,076 | $ 50,418 |
| | | |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| CURRENT LIABILITIES | | |
| Accounts payable | $ 4,150 | $ 4,037 |
| Accrued commissions | 1,550 | 2,031 |
| Accrued expenses and other liabilities | 4,050 | 4,511 |
| Sales tax payable | 718 | 671 |
| Income taxes payable | - | 202 |
| Deferred revenue - current portion | 9,613 | 9,480 |
| Notes payable - current portion | 2,600 | 1,485 |
| Due to related party | 32 | 33 |
| Total current liabilities | 22,713 | 22,450 |
| | | |
| LONG-TERM LIABILITIES | | |
| Notes payable | 4,768 | 4,886 |
| Notes payable due to related party | 1,166 | 963 |
| Deferred revenue | 8,170 | 9,036 |
| Deferred tax liability | 112 | 112 |
| Other long-term liabilities | 1,150 | 1,230 |
| Total long-term liabilities | 15,366 | 16,227 |
| | | |
| COMMITMENTS AND CONTINGENCIES (NOTE N) | | |
| | | |
| STOCKHOLDERS' EQUITY | | |
| Preferred stock, $.01 par value; 1,000,000 shares authorized; nil shares issued and outstanding at June 30, 2016, and December 31, 2015 | - | - |
| Common stock, $.001 par value; 250,000,000 shares authorized; 170,169,440 and 168,749,889 shares issued at June 30, 2016 and December 31, 2015, respectively; 159,861,353 and 158,441,802 shares outstanding at June 30, 2016 and December 31, 2015, respectively | 170 | 168 |
| Additional paid-in capital | 62,500 | 62,263 |
| Accumulated deficit | (48,501) | (48,610) |
| Accumulated other comprehensive loss | (172) | (80) |
| Treasury stock, at cost, 10,308,087 shares at June 30, 2016 and December 31, 2015 | (2,000) | (2,000) |
| Total stockholders’ equity | 11,997 | 11,741 |
| | $ 50,076 | $ 50,418 |

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

**Vasomedical, Inc. and Subsidiaries**

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

(Unaudited)
*(in thousands, except per share data)*

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Revenues | | | | |
| Professional sales services | $ 6,860 | $ 7,036 | $ 13,706 | $ 13,427 |
| Managed IT systems and services | 10,124 | 2,811 | 19,851 | 2,811 |
| Equipment sales and services | 1,230 | 996 | 2,199 | 2,059 |
| Total revenues | 18,214 | 10,843 | 35,756 | 18,297 |
| | | | | |
| Cost of revenues | | | | |
| Cost of professional sales services | 1,582 | 1,524 | 2,993 | 3,047 |
| Cost of managed IT systems and services | 6,165 | 1,613 | 11,886 | 1,613 |
| Cost of equipment sales and services | 354 | 378 | 752 | 741 |
| Total cost of revenues | 8,101 | 3,515 | 15,631 | 5,401 |
| Gross profit | 10,113 | 7,328 | 20,125 | 12,896 |
| | | | | |
| Operating expenses | | | | |
| Selling, general and administrative | 9,744 | 6,985 | 19,450 | 12,704 |
| Research and development | 105 | 137 | 252 | 272 |
| Total operating expenses | 9,849 | 7,122 | 19,702 | 12,976 |
| Operating income (loss) | 264 | 206 | 423 | (80) |
| | | | | |
| Other income (expense) | | | | |
| Interest and financing costs | (170) | (89) | (341) | (117) |
| Interest and other income (expense), net | 68 | 80 | 78 | 147 |
| Total other income (expense), net | (102) | (9) | (263) | 30 |
| | | | | |
| Income (loss) before income taxes | 162 | 197 | 160 | (50) |
| Income tax benefit (expense) | 51 | (6) | (51) | (12) |
| Net income (loss) | 213 | 191 | 109 | (62) |
| | | | | |
| Other comprehensive income | | | | |
| Foreign currency translation (loss) gain | (130) | 24 | (92) | 31 |
| Comprehensive income (loss) | $ 83 | $ 215 | $ 17 | $ (31) |
| | | | | |
| Income (loss) per common share | | | | |
| - basic and diluted | $ 0.00 | $ 0.00 | $ 0.00 | $ (0.00) |
| | | | | |
| Weighted average common shares outstanding | | | | |
| - basic | 158,513 | 156,258 | 157,952 | 156,102 |
| - diluted | 158,704 | 156,566 | 158,373 | 156,102 |

*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 Other Comprehensive | Total Stockholders' |
|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Paid-in-Capital | Deficit | Income (Loss) | Equity |
| **Balance at December 31, 2014** | **166,435** | **$ 166** | **(10,308)** | **$ (2,000)** | **$ 61,924** | **$ (52,433)** | **$ 94** | **$ 7,751** |
| Share-based compensation | 2,315 | 2 | - | - | 340 | - | - | 342 |
| Shares not issued for employee tax liability | - | - | - | - | (1) | - | - | (1) |
| Foreign currency translation loss | - | - | - | - | - | - | (174) | (174) |
| Net income | - | - | - | - | - | 3,823 | - | 3,823 |
| **Balance at December 31, 2015** | **168,750** | **$ 168** | **(10,308)** | **$ (2,000)** | **$ 62,263** | **$ (48,610)** | **$ (80)** | **$ 11,741** |
| Share-based compensation | 306 | - | - | - | 67 | - | - | 67 |
| Shares issued to settle liability | 1,113 | 2 | - | - | 176 | - | - | 178 |
| Shares not issued for employee tax liability | - | - | - | - | (6) | - | - | (6) |
| Foreign currency translation loss | - | - | - | - | - | - | (92) | (92) |
| Net income | - | - | - | - | - | 109 | - | 109 |
| **Balance at June 30, 2016 (unaudited)** | **170,169** | **$ 170** | **(10,308)** | **$ (2,000)** | **$ 62,500** | **$ (48,501)** | **$ (172)** | **$ 11,997** |

*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)*

| | Six months ended June 30, 2016 | 2015 |
|---|---|---|
| Cash flows from operating activities | | |
| Net income (loss) | $ 109 | $ (62) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities | | |
| Depreciation and amortization | 1,043 | 482 |
| Deferred income taxes | 41 | - |
| Loss from interest in joint venture | 77 | - |
| Provision for doubtful accounts and commission adjustments | 75 | 61 |
| Amortization of debt issue costs | 16 | 1 |
| Share-based compensation | 67 | 260 |
| Provision for allowance for loss on loan receivable | 412 | - |
| Changes in operating assets and liabilities: | | |
| Accounts and other receivables | 2,596 | 10,429 |
| Receivables due from related parties | 108 | 1 |
| Inventories, net | 132 | (354) |
| Deferred commission expense | 90 | (207) |
| Other current assets | - | (115) |
| Other assets, net | 377 | 1,859 |
| Accounts payable | 194 | (43) |
| Accrued commissions | (481) | (1,092) |
| Accrued expenses and other liabilities | (198) | (1,243) |
| Sales tax payable | 48 | (32) |
| Income taxes payable | (202) | (25) |
| Deferred revenue | (734) | (2,918) |
| Notes payable due to related party | - | 31 |
| Other long-term liabilities | (22) | (199) |
| Net cash provided by operating activities | 3,748 | 6,834 |
| Cash flows from investing activities | | |
| Purchases of equipment and software | (907) | (188) |
| Purchases of short-term investments | - | (38) |
| Redemption of short-term investments | 38 | 40 |
| Acquisition of Netwolves | - | (18,000) |
| Cash acquired through purchase of Netwolves | - | 733 |
| Investment in VSK | (422) | (100) |
| Net cash used in investing activities | (1,291) | (17,553) |
| Cash flows from financing activities | | |
| Net borrowings on revolving line of credit | 994 | - |
| Debt issuance costs | (130) | - |
| Payroll taxes paid by withholding shares | (6) | - |
| Repayment of notes payable | (89) | (21) |
| Proceeds from notes payable | - | 4,550 |
| Proceeds from note payable due to related party | 300 | |
| Payments on notes payable due to related party | (72) | - |
| Net cash provided by financing activities | 997 | 4,529 |
| Effect of exchange rate differences on cash and cash equivalents | 8 | (7) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 3,462 | (6,197) |
| Cash and cash equivalents - beginning of period | 2,160 | 9,128 |
| Cash and cash equivalents - end of period | $ 5,622 | $ 2,931 |
| SUPPLEMENTAL DISCLOSURE OF CASH INFORMATION | | |
| Interest paid | $ 436 | $ 15 |
| Income taxes paid | $ 310 | $ 66 |
| SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES | | |
| Inventories transferred to property and equipment, attributable to operating leases, net | $ 144 | $ 3 |
| Liability settled through issuance of common stock | $ 178 | $ - |

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

### Overview

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

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

- Professional sales service segment, operating through a wholly-owned subsidiary Vaso Diagnostics, Inc. d/b/a VasoHealthcare, primarily focuses on the sale of healthcare capital equipment for General Electric Healthcare (“GEHC”) into the health provider middle market; and

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

### *VasoTechnology*

VasoTechnology, Inc. was formed in May 2015, at the time the Company acquired all of the assets of NetWolves, LLC and its affiliates, including the membership interests in NetWolves Network Services, LLC (collectively, “NetWolves”). It currently consists of a managed network and security service division and a healthcare IT application VAR (value added reseller) division. Its current offerings include:

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

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

### *VasoHealthcare*

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

VasoHealthcare’s current offerings consist of:

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

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

*Vasomedical Global and Vasomedical Solutions*

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

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

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

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 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, 2015, as filed with the SEC on March 30, 2016.

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 and Recent Accounting Pronouncements**

During the first quarter of 2016, we adopted Accounting Standards Update ("ASU") No. 2015-16, *Simplifying the Accounting for Measurement-period Adjustments*, and ASU No. 2016-09, *Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, neither of which had a material impact on our reported financial position or results of operations and cash flows. There have been no other significant changes in our reported financial position or results of operations and cash flows as a result of the adoption of new accounting pronouncements or to our significant accounting policies that were disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015 that have had a significant impact on our consolidated financial statements or notes thereto.

In April 2016, the FASB issued ASU No. 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*, which adds further guidance on identifying performance obligations and improves the operability and understanding of the licensing implementation guidance. The standard is effective for fiscal periods beginning after December 15, 2017, including interim periods therein. Early application for public entities is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements.

*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 June 30, 2016 (unaudited) | As of December 31, 2015 |
|---|---|---|
| Cash and cash equivalents | $ 43 | $ 104 |
| Total assets | $ 1,281 | $ 1,168 |
| Total liabilities | $ 974 | $ 1,007 |

*(in thousands)*

| | Three months ended June 30, 2016 (unaudited) | Three months ended June 30, 2015 (unaudited) | Six months ended June 30, 2016 (unaudited) | Six months ended June 30, 2015 (unaudited) |
|---|---|---|---|---|
| Total net revenue | $ 566 | $ 454 | $ 914 | $ 825 |
| Net income (loss) | $ 162 | $ (87) | $ 160 | $ (223) |

*Reclassifications*

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

NOTE C – SEGMENT REPORTING AND CONCENTRATIONS

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

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

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

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 and adjusted EBITDA (net income (loss), plus interest expense (income), net; tax expense; depreciation and amortization; and non-cash stock-based compensation). Administrative functions such as finance, human resources, and information technology are centralized and related expenses allocated to each segment. Other costs not directly attributable to operating segments, such as audit, legal, director fees, investor relations, and others, as well as certain assets – primarily cash balances – are reported in the Corporate entity below. There are no intersegment revenues. Summary financial information for the segments is set forth below:

*(in thousands)*

| | As of or for the three months ended June 30, 2016 (unaudited) | | | | |
|---|---|---|---|---|---|
| | Professional Sales Service Segment | IT Segment | Equipment Segment | Corporate | Consolidated |
| Revenues from external customers | $ 6,860 | $ 10,124 | $ 1,230 | $ - | $ 18,214 |
| Operating income (loss) | $ 1,422 | $ (853) | $ (13) | $ (292) | $ 264 |
| Total assets | $ 10,565 | $ 25,699 | $ 7,900 | $ 5,912 | $ 50,076 |
| Accounts and other receivables, net | $ 5,393 | $ 2,832 | $ 720 | $ - | $ 8,945 |
| Deferred commission expense | $ 2,011 | $ 150 | $ - | $ - | $ 2,161 |
| Other assets, net | $ 2,644 | $ 265 | $ 79 | $ 825 | $ 3,813 |

| | As of or for the three months ended June 30, 2015 (unaudited) | | | | |
|---|---|---|---|---|---|
| | Professional Sales Service Segment | IT Segment | Equipment Segment | Corporate | Consolidated |
| Revenues from external customers | $ 7,036 | $ 2,811 | $ 996 | $ - | $ 10,843 |
| Operating income (loss) | $ 1,794 | $ (366) | $ (676) | $ (546) | $ 206 |
| Total assets | $ 10,421 | $ 25,205 | $ 9,385 | $ 1,309 | $ 46,320 |
| Accounts and other receivables, net | $ 4,421 | $ 1,399 | $ 500 | $ - | $ 6,320 |
| Deferred commission expense | $ 2,388 | $ 19 | $ - | $ - | $ 2,407 |
| Other assets, net | $ 3,098 | $ 51 | $ 675 | $ 113 | $ 3,937 |

| | As of or for the six months ended June 30, 2016 (unaudited) | | | | |
|---|---|---|---|---|---|
| | Professional Sales Service Segment | IT Segment | Equipment Segment | Corporate | Consolidated |
| Revenues from external customers | $ 13,706 | $ 19,851 | $ 2,199 | $ - | $ 35,756 |
| Operating income (loss) | $ 3,410 | $ (1,596) | $ (711) | $ (680) | $ 423 |
| Total assets | $ 10,565 | $ 25,699 | $ 7,900 | $ 5,912 | $ 50,076 |
| Accounts and other receivables, net | $ 5,393 | $ 2,832 | $ 720 | $ - | $ 8,945 |
| Deferred commission expense | $ 2,011 | $ 150 | $ - | $ - | $ 2,161 |
| Other assets, net | $ 2,644 | $ 265 | $ 79 | $ 825 | $ 3,813 |

| | As of or for the six months ended June 30, 2015 (unaudited) | | | | |
|---|---|---|---|---|---|
| | Professional Sales Service Segment | IT Segment | Equipment Segment | Corporate | Consolidated |
| Revenues from external customers | $ 13,427 | $ 2,811 | $ 2,059 | $ - | $ 18,297 |
| Operating income (loss) | $ 2,880 | $ (721) | $ (1,311) | $ (928) | $ (80) |
| Total assets | $ 10,421 | $ 25,205 | $ 9,385 | $ 1,309 | $ 46,320 |
| Accounts and other receivables, net | $ 4,421 | $ 1,399 | $ 500 | $ - | $ 6,320 |
| Deferred commission expense | $ 2,388 | $ 19 | $ - | $ - | $ 2,407 |
| Other assets, net | $ 3,098 | $ 51 | $ 675 | $ 113 | $ 3,937 |

For both the three and six months ended June 30, 2016, GE Healthcare accounted for 38% of revenue, and for the three and six months ended June 30, 2015, GE Healthcare accounted for 65% and 73% of revenue, respectively. GE

Healthcare also accounted for $5.0 million or 56%, and $8.1 million or 69%, of accounts and other receivables at June 30, 2016 and December 31, 2015, respectively.

NOTE D – EARNINGS PER COMMON SHARE

Basic earnings (loss) per common share is computed as earnings applicable to common stockholders divided by the weighted-average number of common shares outstanding for the period. Diluted earnings (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.

Diluted earnings (loss) per share were computed based on the weighted average number of shares outstanding plus all potentially dilutive common shares. A reconciliation of basic to diluted shares used in the earnings per share calculation is as follows:

*(in thousands)*

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| Basic weighted average shares outstanding | 158,513 | 156,258 | 157,952 | 156,102 |
| Dilutive effect of options and unvested restricted shares | 191 | 308 | 421 | - |
| Diluted weighted average shares outstanding | 158,704 | 156,566 | 158,373 | 156,102 |

The following table represents common stock equivalents that were excluded from the computation of diluted earnings per share for the three and six months ended June 30, 2016 and 2015, because the effect of their inclusion would be anti-dilutive.

*(in thousands)*

| | For the three months ended | | For the six months ended | |
|---|---|---|---|---|
| | June 30, 2016 | June 30, 2015 | June 30, 2016 | June 30, 2015 |
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| Stock options | - | 335 | - | 935 |
| Restricted common stock grants | 2,246 | 125 | 500 | 2,873 |
| | 2,246 | 460 | 500 | 3,808 |

NOTE E – ACCOUNTS AND OTHER RECEIVABLES, NET

The following table presents information regarding the Company’s accounts and other receivables as of June 30, 2016 and December 31, 2015:

*(in thousands)*

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| | (unaudited) | |
| Trade receivables | $ 12,317 | $ 15,252 |
| Due from employees | 426 | 231 |
| Allowance for doubtful accounts and commission adjustments | (3,798) | (3,863) |
| Accounts and other receivables, net | $ 8,945 | $ 11,620 |

Trade receivables include amounts due for shipped products and services rendered. Amounts currently due under the GEHC Agreement are subject to adjustment in subsequent periods should the underlying sales order amount, upon which the receivable is based, change.

Allowance for doubtful accounts and commission adjustments include estimated losses resulting from the inability of our customers to make required payments, and adjustments arising from subsequent changes in sales order amounts that may reduce the amount the Company will ultimately receive under the GEHC Agreement. Due from employees is primarily commission advances made to sales personnel.

NOTE F – INVENTORIES, NET

Inventories, net of reserves, consist of the following:

*(in thousands)*

| | June 30, 2016 | | December 31, 2015 | |
|---|---|---|---|---|
| | (unaudited) | | | |
| Raw materials | $ | 453 | $ | 497 |
| Work in process | | 384 | | 392 |
| Finished goods | | 834 | | 1,074 |
| | $ | 1,671 | $ | 1,963 |

At June 30, 2016 and December 31, 2015, the Company maintained reserves for slow moving inventories of $830,000 and $861,000, respectively.

NOTE G – GOODWILL AND OTHER INTANGIBLES

Goodwill aggregating $17,412,000 and $17,484,000 was recorded on the Company's condensed consolidated balance sheets at June 30, 2016 and December 31, 2015, respectively, of which $14,375,000, allocated to the IT segment, resulted from the acquisition of NetWolves in May 2015. The remaining $3,037,000 of goodwill is allocated to the Company's equipment segment. The components of the change in goodwill are as follows:

*(in thousands)*

| | Carrying Amount | |
|---|---|---|
| Balance at December 31, 2015 | $ | 17,484 |
| Foreign currency translation | | (72) |
| Balance at June 30, 2016 (unaudited) | $ | 17,412 |

The Company's other intangible assets consist of capitalized customer-related intangibles, patent and technology costs, and software costs, as set forth in the following:

| | *(in thousands)* | |
|---|---|---|
| | June 30, 2016 | December 31, 2015 |
| | (unaudited) | |
| Customer-related | | |
| Costs | $ 5,831 | $ 5,831 |
| Accumulated amortization | (1,347) | (926) |
| | 4,484 | 4,905 |
| | | |
| Patents and Technology | | |
| Costs | 2,394 | 2,423 |
| Accumulated amortization | (934) | (806) |
| | 1,460 | 1,617 |
| | | |
| Software | | |
| Costs | 1,286 | 1,182 |
| Accumulated amortization | (742) | (727) |
| | 544 | 455 |
| | | |
| | $ 6,488 | $ 6,977 |

Patents and technology, and software, are amortized on a straight-line basis over their estimated useful lives of ten, and five years, respectively. The cost of significant customer-related intangibles is amortized in proportion to estimated total related revenue; cost of other customer-related intangible assets is amortized on a straight-line basis over the asset's estimated economic life of seven years. Software costs are amortized on a straight-line basis over its expected useful life of five years.

Amortization expense amounted to $283,000 and $164,000 for the three months ended June 30, 2016, and 2015, respectively, and $563,000 and $335,000 for the six months ended June 30, 2016 and 2015, respectively.

Amortization of intangibles for the next five years is:

*(in thousands)*

| Years | (unaudited) |
|---|---|
| Remainder of 2016 | $ 604 |
| 2017 | 1,105 |
| 2018 | 951 |
| 2019 | 829 |
| 2020 | 704 |

NOTE H – OTHER ASSETS, NET

Other assets, net consist of the following at June 30, 2016 and December 31, 2015:

| | *(in thousands)* | |
|---|---|---|
| | June 30, 2016 | December 31, 2015 |
| | (unaudited) | |
| Deferred commission expense - noncurrent | $ 2,035 | $ 2,083 |
| Trade receivables - noncurrent | 706 | 1,025 |
| Other, net of allowance for loss on loan receivable of $412 at June 30, 2016 and $0 at December 31, 2015 | 1,072 | 1,207 |
| | $ 3,813 | $ 4,315 |

NOTE I – ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses and other liabilities consist of the following at June 30, 2016 and December 31, 2015:

| | *(in thousands)* | |
|---|---|---|
| | June 30, 2016 | December 31, 2015 |
| | (unaudited) | |
| Accrued compensation | $ 744 | $ 1,589 |
| Accrued expenses - other | 721 | 1,414 |
| Other liabilities | 2,585 | 1,508 |
| | $ 4,050 | $ 4,511 |

NOTE J - DEFERRED REVENUE

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

*(in thousands)*

| | For the three months ended | | For the six months ended | |
|---|---|---|---|---|
| | June 30, 2016 | June 30, 2015 | June 30, 2016 | June 30, 2015 |
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| Deferred revenue at beginning of period | $ 17,903 | $ 21,453 | $ 18,516 | $ 22,532 |
| Additions: | | | | |
| Deferred extended service contracts | 115 | 94 | 328 | 305 |
| Deferred in-service and training | 5 | 3 | 8 | 5 |
| Deferred service arrangements | 10 | 5 | 20 | 15 |
| Deferred commission revenues | 2,785 | 1,481 | 5,083 | 3,330 |
| Recognized as revenue: | | | | |
| Deferred extended service contracts | (199) | (214) | (398) | (445) |
| Deferred in-service and training | (8) | (3) | (13) | (10) |
| Deferred service arrangements | (11) | (20) | (20) | (43) |
| Deferred commission revenues | (2,817) | (3,185) | (5,741) | (6,075) |
| Deferred revenue at end of period | 17,783 | 19,614 | 17,783 | 19,614 |
| Less: current portion | 9,613 | 11,560 | 9,613 | 11,560 |
| Long-term deferred revenue at end of period | $ 8,170 | $ 8,054 | $ 8,170 | $ 8,054 |

## NOTE K – EQUITY

On June 15, 2016, the Board of Directors ("Board") approved the 2016 Stock Plan (the "2016 Plan") for officers, directors, and senior employees of the Corporation or any subsidiary of the Corporation. The stock issuable under the 2016 Plan shall be shares of the Company's authorized but unissued or reacquired common stock. The maximum number of shares of common stock that may be issued under the 2016 Plan is 7,500,000 shares.

The 2016 Plan consists of a Stock Issuance Program, under which eligible persons may, at the discretion of the Board, be issued shares of common stock directly, as a bonus for services rendered or to be rendered to the Corporation or any subsidiary of the Corporation.

No shares were granted under the 2016 Plan during the six months ended June 30, 2016. See Note O.

## NOTE L – BUSINESS COMBINATION

On May 29, 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") for $18,000,000 (the "Purchase Price"). The purchase of NetWolves was accomplished pursuant to an Asset Purchase Agreement (the "Purchase Agreement"). As a result, the Company effectively purchased all rights, titles and ownership of all assets held by NetWolves. The Purchase Price was paid using $14,200,000 in cash on hand and $3,800,000 raised through the issuance of a secured subordinated promissory note ("Note") to MedTechnology Investments, LLC ("MedTech" - see Note M). The Company believes there are significant operational synergies between NetWolves' capabilities and VasoHealthcare IT's requirements under its VAR contract with GEHC, as well as the opportunity to expand NetWolves' existing services to the healthcare IT market.

In accordance with Accounting Standards Codification 805, Business Combinations, the total purchase consideration is allocated to the net tangible and intangible assets acquired and liabilities assumed based on their estimated fair values at May 29, 2015 (the acquisition date). The following table summarizes the allocation of the assets acquired and liabilities assumed based on their estimated fair values as follows:

| | (in thousands) |
|---|---|
| | May 29, 2015 |
| Cash and cash equivalents | $ 733 |
| Accounts receivable and other current assets | 1,535 |
| Other assets | 50 |
| Property and equipment | 2,359 |
| Accounts payable and other current liabilities | (4,382) |
| Long term debt | (1,701) |
| Goodwill and other intangibles | 14,375 |
| Customer-related intangibles | 5,031 |
| Total | $ 18,000 |

The goodwill is expected to be deductible for tax purposes.

The following unaudited supplemental pro forma information presents the financial results as if the acquisition of NetWolves had occurred January 1, 2014.

| | (in thousands) | |
|---|---|---|
| | Three months ended | Six months ended |
| | June 30, 2015 | June 30, 2015 |
| | (unaudited) | (unaudited) |
| Revenue | $ 16,088 | $ 31,449 |
| Net income | 580 | 517 |
| Earnings per share - basic and diluted | $0.00 | $0.00 |

NOTE M – RELATED-PARTY TRANSACTIONS

One of the Company's directors, Peter Castle, was the Chief Executive Officer and President of NetWolves, LLC. Another of the Company's directors, David Lieberman, was a director of NetWolves Network Services, LLC. Mr. Castle and Mr. Lieberman owned of record approximately 10.4% and 5.7%, respectively of the membership interests of NetWolves LLC. Mr. Lieberman may also be deemed to have owned beneficially up to an additional 13.5% of such membership interests. The Company's board of directors negotiated the Purchase Price on an arm's length basis, and both Mr. Castle and Mr. Lieberman abstained from the vote approving the Purchase Agreement (see Note L).

The Company obtained an opinion regarding the fairness of the Purchase Price for NetWolves from a reputable, independent third-party investment banking firm. $14,200,000 of the Purchase Price was paid for by cash on hand, and the remaining $3,800,000 was raised from the sale of the Note to MedTech. Of the $4,800,000 borrowed from MedTech, $2,200,000 was provided by six of our directors or members of their families, and an additional $100,000 was provided by an additional director prior to his joining the board of directors in June 2015. The MedTech Note bears interest at 9% per annum.

David Lieberman, the Vice Chairman of the Company's Board of Directors, is a practicing attorney in the State of New York and a senior partner at the law firm of Beckman, Lieberman & Barandes, LLP, which performs certain legal services for the Company. Fees of approximately $85,000 and $170,000 were billed by the firm for the three and six months ended June 30, 2016, respectively, at which date no amounts were outstanding. Fees of approximately $60,000 and $120,000 were billed by the firm through the three and six month periods ended June 30, 2015, respectively, at which date $20,000 was outstanding.

In January 2015, operations began under the VSK joint venture. The Company accounts for its investment in VSK using the equity method. On May 31, 2016, the Company, through its FGE subsidiary, borrowed $300,000 through the issuance of a promissory note to VSK, which is included in notes payable due to related party in the accompanying unaudited condensed consolidated balance sheets. The note matures on May 31, 2018 and bears interest at 1.2% per annum. At June 30, 2016, the Company had contributed $522,000 to VSK, and $80,000 was due from VSK for equipment and services the Company billed to it. The Company's pro-rata share in VSK's loss from operations approximated $4,000 and $77,000 for the three and six months ended June 30, 2016, respectively, and is included in interest and other income (expense), net in the accompanying unaudited condensed consolidated statements of operations and comprehensive income (loss). VSK earned approximately $50,000 and $46,000 for the three and six months ended June 30, 2015, respectively. Under the terms of the agreement, the Company accrues no interest in VSK's income in the years ending December 31, 2015, 2016 and 2017 until certain performance targets are achieved. For the year ended December 31, 2015 such targets had not been achieved.

## NOTE N – COMMITMENTS AND CONTINGENCIES

*Litigation*

The Company is currently, and has been in the past, a party to various routine legal proceedings, primarily employee related matters, incident to the ordinary course of business. The Company believes that the outcome of all such pending legal proceedings in the aggregate is unlikely to have a material adverse effect on the business or consolidated financial condition of the Company.

*Sales representation agreement*

In June 2012, the Company concluded an amendment of the GEHC Agreement with GEHC, originally signed on May 19, 2010. The amendment, effective July 1, 2012, extended the initial term of three years commencing July 1, 2010 to five years through June 30, 2015. In December 2014, the Company concluded an additional amendment, effective January 1, 2015, extending the term through December 31, 2018, subject to earlier termination under certain circumstances and termination without cause on or after July 1, 2017. These circumstances include not materially achieving certain sales goals, not maintaining a minimum number of sales representatives, and various legal and GEHC policy requirements. Under the terms of the agreement, the Company is required to lease dedicated computer equipment from GEHC for connectivity to their network.

## NOTE O – SUBSEQUENT EVENT

In July 2016, the Company granted 3.6 million shares of restricted common stock to directors, officers and key employees under the 2016 Stock Plan. One-third of the shares vested immediately and the remaining two-thirds vest equally one year and two years from grant date.

## 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; continuation of the GEHC agreements and the risk factors reported from time to time in the Company's SEC reports, including its recent report on Form 10-K. The Company undertakes no obligation to update forward-looking statements as a result of future events or developments.*

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

### General Overview

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

- IT segment, operating through a wholly-owned subsidiary VasoTechnology, Inc., primarily focuses on healthcare IT and managed network technology services;
- Professional sales service segment, operating through a wholly-owned subsidiary Vaso Diagnostics, Inc. d/b/a VasoHealthcare, primarily focuses on the sale of healthcare capital equipment for GEHC into the health provider middle market; and
- Equipment segment, operating through wholly-owned subsidiaries Vasomedical Global Corp. and Vasomedical Solutions, Inc., primarily focuses on the design, manufacture, sale and service of proprietary medical devices.

### Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon the accompanying unaudited condensed consolidated 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 December 31, 2015 as filed with the SEC on March 30, 2016.

**Results of Operations – For the Three Months Ended June 30, 2016 and 2015**

Total revenue for the three months ended June 30, 2016 and 2015 was $18,214,000 and $10,843,000, respectively, representing an increase of $7,371,000, or 68% year-over-year. The revenue increase was primarily due to $7,313,000 higher revenue in the IT segment, $6,472,000 of which resulted from the operations of NetWolves, that the Company acquired at the end of May 2015 and thus included only one month of operations in the second quarter 2015. Net income for the three months ended June 30, 2016 was $213,000, compared to $191,000 for the three months ended June 30, 2015, representing a growth of $22,000, or 12%. Our total net income was $0.00 per basic and diluted common share for the three months ended June 30, 2016 and 2015.

*Revenues*

Commission revenues in the professional sales services segment were $6,860,000 in the second quarter of 2016, a decrease of 3%, as compared to $7,036,000 in the second quarter of 2015. The decrease in commission revenues in the second quarter of 2016 was due primarily to a decrease in the blended commission rates for equipment delivered by GEHC during the quarter, partially offset by higher delivery volume. The Company recognizes commission revenue 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 prior to customer acceptance of the equipment are recorded as deferred revenue in the condensed consolidated balance sheet. As of June 30, 2016, $16,710,000 in deferred commission revenue was recorded in the Company's condensed consolidated balance sheet, of which $7,716,000 was long-term. At June 30, 2015, $18,410,000 in deferred commission revenue was recorded in the Company's condensed consolidated balance sheet, of which $7,508,000 was long-term.

Revenue in the IT segment for the three months ended June 30, 2016 was $10,124,000 compared to $2,811,000 for the three months ended June 30, 2015, an increase of $7,313,000, of which $6,472,000 resulted from the acquisition of NetWolves in the second quarter 2015, and $841,000 resulted from growth in the healthcare IT VAR business, which is still in its start-up phase.

Revenue in our equipment segment increased by $234,000, or 23%, to $1,230,000 for the three-month period ended June 30, 2016 compared to the same period of the prior year. The increase was principally due to an increase in EECP® revenues and international sales by our China operations as a result of higher sales volume.

*Gross Profit*

The Company had a gross profit of $10,113,000, or 56% of revenue, in the second quarter of 2016 compared to $7,328,000, or 68% of revenue, in the second quarter of the prior year, an increase of $2,785,000, or 38%. The increase is principally due to $2,761,000 higher gross profit in the IT segment, of which $2,672,000 resulted from the acquisition of NetWolves, combined with $258,000 higher gross profit in the equipment segment, partially offset by $234,000 lower gross profit in the professional sales services segment.

Professional sales services segment gross profit was $5,278,000, or 77% of the segment revenue, for the three months ended June 30, 2016 as compared to $5,512,000, or 78% of the segment revenue, for the three months ended June 30, 2015. The decrease in absolute dollars and margin percentage was due to the lower blended commission rates on GEHC equipment delivered during the second quarter of 2016 than in the same period last year, as well as higher commission expense in the second quarter of 2016. Cost of commissions of $1,582,000 and $1,524,000, for the three months ended June 30, 2016 and 2015, respectively, reflected commission expense associated with recognized commission revenues. The increase was due to higher commission expense rates on certain deliveries in the second quarter 2016 compared to the same period in 2015. Commission expense associated with deferred revenue is recorded as deferred commission expense until the related commission revenue is recognized.

IT segment gross profit for the three months ended June 30, 2016 was $3,959,000, or 39% of the segment revenue, compared to $1,198,000, or 43% of the segment revenue for the three months ended June 30, 2015, with the increase primarily resulting from the inclusion of three months of NetWolves operations as compared to one month in the prior year. Gross profit margin decreased mainly due to a higher mix of healthcare IT VAR sales, which have lower margins, in the second quarter of 2016.

Equipment segment gross profit increased to $876,000, or 71% of equipment segment revenues, for the second quarter of 2016 compared to $618,000, or 62% of equipment segment revenues, for the same quarter of 2015. Gross profit margin in the equipment segment increased due mainly to a higher mix of Biox products and higher average selling prices on EECP® products.

*Operating Income*

Operating income was $264,000 for the three months ended June 30, 2016, compared to $206,000 for the three months ended June 30, 2015, a growth of $58,000, or 28%. The improvement in operating income is due to the increase in gross profit, partially offset by higher selling, general and administrative, or SG&A, costs. SG&A costs were 53% of revenue for the three months ended June 30, 2016, compared to 64% of revenue for the three months ended June 30, 2015.

Operating income in the professional sales services segment decreased by $372,000 to $1,422,000, compared to $1,794,000 in the second quarter of the prior year, due mainly to a lower gross margin combined with higher SG&A costs. In addition, operating loss in the equipment segment decreased by $663,000, or 98%, to $13,000 compared to $676,000 in the same quarter of the prior year, due primarily to $258,000 higher gross profit and $374,000 lower SG&A costs in the current year quarter. Our IT segment had an operating loss of $853,000 in the second quarter of 2016 as compared to an operating loss of $366,000 in the same quarter of the prior year, primarily due to an increase of $418,000 attributable to the inclusion of NetWolves. The results for the three and six months ended June 30, 2015 included only one month of operations of NetWolves.

SG&A expenses for the second quarter of 2016 and 2015 were $9,744,000, or 53% of revenues, and $6,985,000, or 64% of revenues, respectively, reflecting an increase of $2,759,000 or approximately 39%. The increase in SG&A expenditures in the second quarter of 2016 resulted primarily from $3,248,000 higher costs in the IT segment in 2016 mainly due to the inclusion of three months of NetWolves operations during the second quarter of 2016 as compared to one month of NetWolves operations in the same quarter of the prior year, and higher sales and marketing expenses in the VAR business, partially offset by lower costs in the equipment and corporate segments.

Research and development ("R&D") expenses were $105,000, or 1% of revenues (9% of equipment segment revenues), for the second quarter of 2016, a decrease of $32,000, or 23%, from $137,000, or 1% of revenues (14% of equipment segment revenues), for the second quarter of 2015. The decrease is primarily attributable to lower product submission expenses in the second quarter of 2016.

*Adjusted EBITDA*

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

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

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

*(in thousands)*

| | Three months ended June 30, 2016 (unaudited) | Three months ended June 30, 2015 (unaudited) |
|---|---|---|
| Net income | $ 213 | $ 191 |
| Interest expense (income), net | 154 | 42 |
| Income tax (benefit) expense | (51) | 6 |
| Depreciation and amortization | 536 | 271 |
| Share-based compensation | 34 | 241 |
| Adjusted EBITDA | $ 886 | $ 751 |

Adjusted EBITDA increased by $135,000, or 18%, to $886,000 in the quarter ended June 30, 2016 from $751,000 in the quarter ended June 30, 2015. The increase was primarily attributable to the higher net income, higher fixed asset depreciation in the IT segment and amortization of intangibles associated with the NetWolves acquisition in May 2015, and higher interest expense arising from the MedTech Note used to partially fund the NetWolves acquisition, partially offset by lower share-based compensation and lower income tax expense.

*Interest and Other Income (Expense)*

Interest and other income (expense) for the second quarter of 2016 was $(102,000) as compared to $(9,000) for the second quarter of 2015. The increase was due primarily to higher interest expense from debt associated with the NetWolves acquisition.

*Income Tax Expense*

During the second quarter of 2016 we recorded income tax benefit of $51,000 as compared to income tax expense of $6,000 for the second quarter of 2015. The change arose from application of alternative minimum tax credits.

**Results of Operations – For the Six Months Ended June 30, 2016 and 2015**

Total revenue for the six months ended June 30, 2016 and 2015 was $35,756,000 and $18,297,000, respectively, representing an increase of $17,459,000, or 95% year-over-year. The revenue increase was primarily due to $17,040,000 higher revenue in the IT segment, including $15,711,000 resulting from the inclusion of six months of NetWolves operations in the current year as compared to only one month of operations in the same period of the prior year, and $1,329,000 was attributable to growth in the VAR business. Net income for the six months ended June 30, 2016 was $109,000 as compared to a loss of $62,000 for the same period of 2015, an improvement of $171,000. Our total net income (loss) was $0.00 and $(0.00) per basic and diluted common share for the six months ended June 30, 2016 and 2015, respectively.

*Revenues*

Commission revenues in the professional sales services segment were $13,706,000 in the first half of 2016, an increase of 2% from $13,427,000 in the first half of 2015. The increase in commission revenue in the first half of 2016 was due to an increase in volume of equipment delivered by GEHC during the period, partially offset by a decrease in the blended commission rate earned. The Company recognizes commission revenue 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 prior to customer acceptance of the equipment are recorded as deferred revenue in the condensed consolidated balance sheet.

Revenue in the IT segment for the six months ended June 30, 2016 was $19,851,000 compared to $2,811,000 revenue for the six months ended June 30, 2015, an increase of $17,040,000, of which $15,711,000 resulted from the acquisition of NetWolves in the second quarter 2015, and $1,329,000 resulted from growth in the healthcare IT VAR business.

Revenue in our equipment segment increased by $140,000, or 7%, to $2,199,000 for the six-month period ended June 30, 2016 from $2,059,000 for the same period of the prior year. The change was primarily attributable to higher international sales by our China operations, partially offset by decreases in EECP® revenues as a result of lower sales volume.

*Gross Profit*

The Company had a gross profit of $20,125,000, or 56% of revenue, in the first six months of 2016 compared to $12,896,000, or 70% of revenue, in the first six months of the prior year, an increase of $7,229,000, or 56%. The increase is principally due to $6,767,000 higher gross profit in the IT segment, of which $6,554,000 resulted from the inclusion of six months of NetWolves operations in 2016 compared to one month of NetWolves operations in the same period of the prior year, and higher gross profit margin in both our professional sales services and equipment segments.

Professional sales services segment gross profit was $10,713,000, or 78% of the segment revenue, for the six months ended June 30, 2016 as compared to $10,380,000, or 77% of the segment revenue, for the six months ended June 30, 2015. The increase in absolute dollars and margin percentage was due to higher equipment deliveries by GEHC, partially offset by a lower blended commission rate, during the first six months of 2016 than in the same period last year, coupled with lower commission expense in the first six months of 2016. Cost of commissions of $2,993,000 and $3,047,000, for the six months ended June 30, 2016 and 2015, respectively, reflected commission expense associated with recognized commission revenues. Commission expense associated with deferred revenue is recorded as deferred commission expense until the related commission revenue is recognized.

IT segment gross profit for the six months ended June 30, 2016 was $7,965,000, or 40% of the segment revenue, compared to $1,198,000, or 43% of the segment revenue, for the six months ended June 30, 2015, with the increase primarily resulting from the inclusion of six months of NetWolves operations as compared to one month last year.

Equipment segment gross profit increased to $1,447,000, or 66% of Equipment segment revenues, for the first six months of 2016 compared to $1,318,000, or 64% of Equipment segment revenues, for the same period of 2015. Gross profit margin in the equipment segment improved due to higher mix of sales by the Chinese operations, which have higher margins.

*Operating Income (Loss)*

Operating income was $423,000 for the six months ended June 30, 2016 as compared to an operating loss of $80,000 for the six months ended June 30, 2015, an improvement of $503,000. During the six months ended June 30, 2016, there was a $7,229,000 increase in gross profit, of which $6,554,000 was due to the inclusion of six months of NetWolves operations in the six month period ended June 30, 2016 compared to one month of NetWolves operations included in the same period of the prior year. Partially offsetting the increase in gross profit was a $6,746,000 increase in SG&A costs, primarily due to $7,322,000 higher NetWolves costs, partially offset by lower equipment and corporate segment SG&A costs.

Operating income in the professional sales services segment increased by $530,000 to $3,410,000 as compared to $2,880,000 in the first half of the prior year, due mainly to higher gross margin combined with lower SG&A costs. In addition, operating loss in the equipment segment decreased by $600,000, or 46%, to $711,000 compared to $1,311,000 in the same period of the prior year, due primarily to $129,000 higher gross profit and $451,000 lower SG&A costs in the current year period.

SG&A expenses for the first two quarters of 2016 and 2015 were $19,450,000, or 54% of revenues, and $12,704,000, or 69% of revenues, respectively, reflecting an increase of $6,746,000 or approximately 53%. The increase in SG&A expenditures in the first two quarters of 2016 resulted primarily from $7,642,000 higher costs attributable to the IT segment in 2016, partially offset by lower costs in the professional sales services and equipment segments due to reduced headcounts, and lower corporate expenses due to costs incurred in 2015 related to the NetWolves acquisition.

Research and development ("R&D") expenses were $252,000, or 1% of revenues (11% of equipment segment revenues), for the first half of 2016, a decrease of $20,000, or 7%, from $272,000, or 1% of revenues (13% of Equipment segment revenues), for the first half of 2015. The decrease is primarily attributable to lower product submission costs.

*Adjusted EBITDA*

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

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

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

*(in thousands)*

| | Six months ended June 30, | |
|---|---|---|
| | 2016 | 2015 |
| | (unaudited) | (unaudited) |
| Net income (loss) | $ 109 | $ (62) |
| Interest expense (income), net | 311 | 36 |
| Income tax expense | 51 | 12 |
| Depreciation and amortization | 1,059 | 483 |
| Share-based compensation | 67 | 260 |
| Adjusted EBITDA | $ 1,597 | $ 729 |

Adjusted EBITDA increased by $868,000 to $1,597,000 in the six months ended June 30, 2016 from $729,000 in the same period of 2015. The increase was primarily attributable to the higher net income, higher fixed asset depreciation in the IT segment and amortization of intangibles associated with the NetWolves acquisition in May 2015, and higher interest expense arising from the MedTech Note used to partially fund the NetWolves acquisition, and higher income tax expense, partially offset by lower share-based compensation.

*Interest and Other Income (Expense)*

Interest and other income (expense) for the first two quarters of 2016 was $(263,000) as compared to $30,000 for the first two quarters of 2015. The increase in expense was due primarily to higher interest expense associated with the NetWolves acquisition.

*Income Tax Expense*

During the first two quarters of 2016 we recorded income tax expense of $51,000 as compared to income tax expense of $12,000 for the same period of 2015. The increase arose from tax amortization associated with the NetWolves acquisition.

**Liquidity and Capital Resources**

*Cash and Cash Flow*

We have financed our operations from working capital. At June 30, 2016, we had cash and cash equivalents of $5,622,000 and negative working capital of $3,704,000 compared to cash and cash equivalents of $2,160,000, short-term investments of $38,000 and negative working capital of $3,696,000 at December 31, 2015. $7,452,000 in negative working capital at June 30, 2016 is attributable to the net balance of deferred commission expense and deferred revenue. These are non-cash expense and revenue items and have no impact on future cash flows.

Cash provided by operating activities was $3,748,000 during the first half of 2016, compared to $6,834,000 for the same period in 2015, which consisted of net income after adjustments to reconcile net income to net cash of $1,840,000 and cash provided by operating assets and liabilities of $1,908,000. The changes in the account balances primarily reflect a decrease in accounts and other receivables of $2,596,000, partially offset by decreases in deferred revenue of $734,000, accrued commissions of $481,000, and accrued expenses of $198,000. Significantly higher commission billings and recognized revenue were generated in the fourth quarter of 2014, resulting in significant cash inflows early in 2015.

Cash used in investing activities during the six-month period ended June 30, 2016 was $1,291,000. We invested $422,000 in the VSK joint venture as part of our capital contribution, and, $907,000 was used for the purchase of equipment and software. This was partially offset by the redemption of short-term investments of $38,000.

Cash provided by financing activities during the three-month period ended June 30, 2016 was $997,000 as a result of $994,000 in net borrowings on our line of credit and $300,000 received through issuance of a note to VSK, partially offset by $130,000 in debt issuance costs associated with the MedTech note, $89,000 in repayments of notes issued for equipment purchases, $72,000 in payments on related party notes associated with the Genwell acquisition, and $6,000 in payment of payroll taxes where employee shares were withheld for such payments.

*Liquidity*

The Company expects to be profitable for the year ending December 31, 2016 and to continue to generate positive cash flow through its existing professional sales services operations, from the operation of NetWolves, and improved operating efficiency and growth in its China operations and by expanding its market presence and product portfolio. The Company has reorganized its EECP® business model, both domestically and internationally, including the start of operations of the joint venture VSK Medical, intended to reduce costs and achieve profitability in this business. The Company will continue to pursue accretive acquisitions and partnership opportunities in the international and domestic markets and will look to expand its professional sales services business.

## ITEM 4 - CONTROLS AND PROCEDURES

***Evaluation of Disclosure Controls and Procedures***

Disclosure controls and procedures reporting as promulgated under the Exchange Act is defined as controls and procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act are recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms. Disclosure controls and procedures include without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Our CEO and our CFO have evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2016 and have concluded that the Company's disclosure controls and procedures were effective as of June 30, 2016.

***Changes in Internal Control Over Financial Reporting***

There was no change in the Company's internal control over financial reporting during the Company's last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

**ITEM 6 – EXHIBITS**

Exhibits

| | |
|---|---|
| 10 | 2016 Stock Plan |
| 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 and Chief Executive Officer
(Principal Executive Officer)

/s/ Michael J. Beecher .
Michael J. Beecher
Chief Financial Officer and Principal Accounting Officer

Date: August 15, 2016

**EXHIBIT 31.1**

**CERTIFICATION PURSUANT TO RULE 13a/15d OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Jun Ma, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Vasomedical, Inc. and subsidiaries (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Jun Ma .
Jun Ma
President and Chief Executive Officer

Date: August 15, 2016

**EXHIBIT 31.2**

**CERTIFICATION PURSUANT TO RULE 13a/15d OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Michael J. Beecher, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Vasomedical, Inc. and subsidiaries (the “registrant”);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s Board of Directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize, and report financial information; and
   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

/s/ Michael J. Beecher .
Michael J. Beecher
Chief Financial Officer

Date: August 15, 2016

**EXHIBIT 32.1**

**CERTIFICATION PURSUANT TO**
**18 U.S.C. SECTION 1350,**
**AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of Vasomedical, Inc. and subsidiaries (the “Company”) on Form 10-Q for the period ending June 30, 2016, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Jun Ma, as President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Jun Ma .
Jun Ma
President and Chief Executive Officer

Dated: August 15, 2016

**EXHIBIT 32.2**

**CERTIFICATION PURSUANT TO**
**18 U.S.C. SECTION 1350,**
**AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of Vasomedical, Inc. and subsidiaries (the "Company") on Form 10-Q for the period ending June 30, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael J. Beecher, as Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Michael J. Beecher .
Michael J. Beecher
Chief Financial Officer

Dated: August 15, 2016