CODEXIS INC
Form 8-K
July 26, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

Date of report (Date of earliest event reported): July 20, 2018

Codexis, Inc.

(Exact name of Registrant as Specified in its Charter)

Delaware	**001-34705**	**71-0872999**
(State or other jurisdiction of incorporation)	**(Commission File Number)**	**(I.R.S. Employer Identification No.)**

200 Penobscot Drive

Redwood City, CA 94063

(Address of Principal Executive Offices) (Zip Code)

(650) 421-8100

(Registrant s telephone number, including area code)

Not Applicable

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

Written communication pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Item 5.02. Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

On July 26, 2018, Michael Aldridge, the Senior Vice President, Corporate & Strategic Development of Codexis, Inc. (the Company), notified the Company that he will resign from the Company effective as of August 17, 2018. Mr. Aldridge began discussing his resignation with the Company s Chief Executive Officer on July 20, 2018.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: July 26, 2018

CODEXIS, INC.

By: /s/ Gordon Sangster
Name: Gordon Sangster
Title: Senior Vice President and

Chief Financial Officer

ARGIN-RIGHT: 0pt" align="justify">We report the operations of Vasomedical Global Corp. and Vasomedical Solutions, Inc. under our Equipment segment. Vaso Diagnostics activities are included under our Sales Representation segment. VasoHealthcare IT operations report under the IT segment.

While the Company returned to profitability in fiscal 2014, it has historically incurred operating losses and incurred losses for the years ended December 31, 2013 and 2012. The Company believes it will achieve continued profitability through GEHC's higher delivery volume of equipment booked with our Sales Representation segment, the expected growth in our IT segment and through growth in our China operations, and by expanding our product portfolio. In addition, the Company plans to pursue other accretive acquisitions and partnerships in the international and domestic markets and to expand our sales representation business.

Vasomedical, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies consistently applied in the preparation of the consolidated financial statements are as follows:

Principles of Consolidation

The consolidated financial statements include the accounts of Vasomedical, Inc., its wholly-owned subsidiaries, its inactive majority-owned subsidiary, and variable interest entities where the Company is the primary beneficiary. Significant intercompany accounts and transactions have been eliminated.

Variable Interest Entity

Basic Information

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). Laws and regulations of the Peoples Republic of China (PRC) prohibit or restrict companies with foreign ownership from certain activities and benefits including eligibility for PRC government technology development grants. To provide the Company the expected residual returns of the VIE, the Company, through its subsidiary Gentone, entered into a series of contractual arrangements with Biox and its registered shareholders to enable the Company, to:

- exercise effective control over the VIE;
- receive substantially all of the economic benefits and residual returns, and absorb substantially all the risks of the VIE as if they were their sole shareholders; and
- have an exclusive option to purchase all of the equity interests in the VIE.

The Company’s management evaluated the relationships between the Company and Biox, and the economic benefits flow of the applicable contractual arrangements. The Company concluded that it is the primary beneficiary of Biox. As a result, the results of operations, assets and liabilities of Biox have been included in the Company’s consolidated financial statements.

The significant agreements through which the Company exercises effective control over Biox are:

- the Exclusive Technical Consulting Services Agreement between Biox and Gentone;
- the Option Agreement on Purchase of the Equity Interest executed by and among the shareholders of Biox and Gentone;
- the Equity Pledge Agreement executed by and among the shareholders of Biox and Gentone; and
- the Powers of Attorney issued by the shareholders of Biox.

Financial Information of 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 was included in the accompanying consolidated financial statements, is presented as follows:

	(In thousands)	
	As of December 31,	
	2014	2013
Cash and cash equivalents	$159	$469
Total assets	$1,047	$1,237
Total liabilities	$878	$690

Vasomedical, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	(In thousands) Year ended December 31,	
	2014	2013
Total net revenue	$1,741	$1,928
Net (loss) income	$(373)	$204

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Significant estimates and assumptions relate to estimates of collectibility of accounts receivable, the realizability of deferred tax assets, stock-based compensation, values and lives assigned to acquired intangible assets, the adequacy of inventory and warranty reserves, and allocation of fair value among the elements of the multi-deliverable arrangements. Additionally, significant estimates and assumptions impact the Company’s accounting relative to its business combination. Actual results could differ from those estimates.

Revenue Recognition

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

Revenue and Expense Recognition for the Sales Representation Segment

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

Revenue and Expense Recognition for the Equipment Segment

We recognize revenue from the sale of equipment in the period in which we deliver the equipment to the customer. Revenue from the sale of our equipment to international markets is recognized upon shipment of the product to a common carrier, as are supplies, accessories and spare parts delivered to both domestic and international customers. Returns are accepted prior to the in-service and training, subject to a 10% restocking charge, or for normal warranty matters, and we are not obligated for post-sale upgrades to these systems. In addition, we use the installment method to record revenue based on cash receipts in situations where the account receivable is collected over an extended period of time and in our judgment the degree of collectability is uncertain.

In most cases, revenue from domestic EECP® system sales is generated from multiple-element arrangements that require judgment in the areas of customer acceptance, collectability, the separability of units of accounting, and the fair value of individual elements. We follow the FASB Accounting Standards Codification ("ASC") Topic 605 "Revenue Recognition" ("ASC 605") which outlines a framework for recognizing revenue from multi-deliverable arrangements. The principles and guidance outlined in ASC 605 provide a framework to determine (a) how the arrangement consideration should be measured (b) whether the arrangement should be divided into separate units of accounting, and (c) how the arrangement consideration should be allocated among the separate units of accounting. We determined that the domestic sale of our EECP® systems includes a combination of three elements that qualify as separate units of accounting:

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Vasomedical, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

· EECP® equipment sale;
· provision of in-service and training support consisting of equipment set-up and training provided at the customer's facilities; and
· a service arrangement (usually one year), consisting of: service by factory-trained service representatives, material and labor costs, emergency and remedial service visits, software upgrades, technical phone support and preferred response times.

Each of these elements represent individual units of accounting as the delivered item has value to a customer on a stand-alone basis, objective and reliable evidence of fair value exists for undelivered items, and arrangements normally do not contain a general right of return relative to the delivered item. We determine fair value based on the price of the deliverable when it is sold separately, or based on third-party evidence, or based on estimated selling price. Assuming all other criteria for revenue recognition have been met, we recognize revenue for:

· EECP® equipment sales, when title transfers upon delivery;
· in-service and training, following documented completion of the training; and
· service arrangement, ratably over the service period, which is generally one year.

In-service and training generally occurs within a few weeks of shipment and our return policy states that no returns will be accepted after in-service and training has been completed. The amount related to in-service and training is recognized as service revenue at the time the in-service and training is completed and the amount related to service arrangements is recognized ratably as service revenue over the related service period, which is generally one year. Costs associated with the provision of in-service and training and the service arrangement, including salaries, benefits, travel, spare parts and equipment, are recognized in cost of equipment sales as incurred.

The Company also recognizes revenue generated from servicing EECP® systems that are no longer covered by the service arrangement, or by providing sites with additional training, in the period that these services are provided. Revenue related to future commitments under separately priced extended service agreements on our EECP® system are deferred and recognized ratably over the service period, generally ranging from one year to five years. Costs associated with the provision of service and maintenance, including salaries, benefits, travel and spare parts, and equipment, are recognized in cost of equipment rentals and services as incurred. Amounts billed in excess of revenue recognized are included as deferred revenue in the Consolidated Balance Sheets.

Revenues from the sale of EECP® systems through our international distributor network are generally covered by a one-year warranty period. For these customers we accrue a warranty reserve for estimated costs to provide warranty parts when the equipment sale is recognized.

Revenue and Expense Recognition for the IT Segment

The Company recognizes revenue and related costs in the IT segment when services are completed and equipment, if any, is delivered.

Shipping and Handling Costs

All shipping and handling expenses are charged to cost of sales. Amounts billed to customers related to shipping and handling costs are included as a component of sales.

Research and Development

Research and development costs attributable to development are expensed as incurred. Included in research and development costs is amortization expense related to the capitalized cost of EECP® systems under loan for clinical trials.

Vasomedical, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Share-Based Compensation

The Company complies with ASC Topic 718 "Compensation – Stock Compensation" ("ASC 718"), which requires all companies to recognize the cost of services received in exchange for equity instruments, to be recognized in the financial statements based on their fair values. For purposes of estimating the fair value of each option on the date of grant, the Company utilizes the Black-Scholes option-pricing model. Equity instruments issued to non-employees in exchange for goods, fees and services are accounted for under the fair value-based method of ASC Topic 505 "Equity" (ASC 505).

During the year ended December 31, 2014, the Company granted 230,000 restricted shares of common stock valued at $49,100 to non-officer employees, vesting at various periods through September 2017; 450,000 restricted shares of common stock valued at $157,500 to officers, vesting at various periods through February 2016; and 500,000 restricted shares of common stock valued at $175,000 to directors, which vested immediately. The total fair value of shares vested during the year ended December 31, 2014 was $376,000 for employees.

During the year ended December 31, 2013, the Company granted 385,000 restricted shares of common stock valued at $91,700 to non-officer employees, vesting at various periods through June 2015, and granted 100,000 restricted shares of common stock valued at $18,000 to an officer, which vested immediately. The total fair value of shares vested during the year ended December 31, 2013 was approximately $730,000 for employees and approximately $4,000 for non-employees.

The Company did not grant any stock options during the years ended December 31, 2014 or 2013. The intrinsic value of options exercised during the years ended December 31, 2014 and 2013 was $58,500 and $0, respectively.

Share-based compensation expense recognized for the years ended December 31, 2014 and 2013 was $390,000 and $369,000, respectively. Expense for other share-based arrangements was $0 and $87,000 for the years ended December 31, 2014 and 2013, respectively. Unrecognized expense related to existing share-based compensation and arrangements is approximately $77,000 at December 31, 2014 and will be recognized over a period of approximately 1.5 years.

Cash and Cash Equivalents

Cash and cash equivalents represent cash and short-term, highly liquid investments either in certificates of deposit, treasury bills, money market funds, or investment grade commercial paper issued by major corporations and financial institutions that generally have maturities of three months or less from the date of acquisition. Dividend and interest income are recognized when earned. The cost of securities sold is calculated using the specific identification method.

Short-Term Investments

The Company's short-term investments consist of certificates of deposit with original maturities greater than three months and up to one year that are held to maturity.

Accounts Receivable, net

The Company's accounts receivable are due from customers engaged in the distribution of our products and customers engaged in the provision of medical services and from GEHC. Credit is extended based on evaluation of a customer's financial condition and, generally, collateral is not required. Accounts receivable are generally due 30 to 90 days from shipment and services provided and are stated at amounts due from customers net of allowances for doubtful accounts, returns, term discounts and other allowances. Accounts that are outstanding longer than the contractual payment terms are considered past due. Estimates are used in determining the allowance for doubtful accounts based on the Company’s historical collections experience, current trends, credit policy and a percentage of its accounts receivable by aging category. In determining these percentages, the Company reviews historical write-offs of their receivables. The Company also looks at the credit quality of their customer base as well as changes in their credit policies. The Company continuously monitors collections and payments from our customers, and writes off receivables when all efforts at collection have been exhausted. While credit losses have historically been within expectations and the provisions established, the Company cannot guarantee that it will continue to experience the same credit loss rates that they have in the past.

Vasomedical, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The changes in the Company's allowance for doubtful accounts and commission adjustments are as follows:

	(in thousands) For the year ended December 31, 2014	For the year ended December 31, 2013
Beginning Balance	$3,764	$3,179
Provision for losses on accounts receivable	11	68
Direct write-offs, net of recoveries	(156)	-
Commission adjustments	952	517
Ending Balance	$4,571	$3,764

Concentrations of Credit Risk

We market our equipment and IT solutions principally to hospitals, diagnostic imaging centers and physician private practices. We perform credit evaluations of our customers' financial condition and, as a result, believe that our receivable credit risk exposure is limited. For the years ended December 31, 2014 and 2013, no customer in our Equipment or IT segments accounted for 10% or more of revenues or accounts receivable. In our Sales Representation segment, 100% of our revenues and accounts receivable are with GEHC; however, we believe this risk is acceptable based on GEHC's financial position.

The Company maintains cash balances in certain U.S. financial institutions, which, at times, may exceed the Federal Depository Insurance Corporation ("FDIC") coverage of $250,000. The Company has not experienced any losses on these accounts and believes it is not subject to any significant credit risk on these accounts. In addition, the FDIC does not insure the Company's foreign bank balances, which aggregated approximately $410,000 and $701,000 at December 31, 2014 and 2013, respectively.

Inventories, net

The Company values inventory at the lower of cost or estimated market, with cost being determined on a first-in, first-out basis. The Company often places EECP® systems at various field locations for demonstration, training, evaluation, and other similar purposes at no charge. The cost of these EECP® systems is transferred to property and equipment and is amortized over two to five years. The Company records the cost of refurbished components of EECP® systems and critical components at cost plus the cost of refurbishment. The Company regularly reviews inventory quantities on hand, particularly raw materials and components, and records a provision for excess and obsolete inventory based primarily on existing and anticipated design and engineering changes to its products as well as forecasts of future product demand.

We comply with the provisions of ASC Topic 330 "Inventory". The statement clarifies that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) should be recognized as current-period charges and requires the allocation of fixed production overhead to inventory based on the normal capacity of the production facilities.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Major improvements are capitalized and minor replacements, maintenance and repairs are charged to expense as incurred. Upon retirement or disposal of assets, the cost and related accumulated depreciation are removed from the consolidated balance sheets. Depreciation is expensed over the estimated useful lives of the assets, which range from two to eight years, on a straight-line basis. Accelerated methods of depreciation are used for tax purposes. We amortize leasehold improvements over the useful life of the related leasehold improvement or the life of the related lease, whichever is less.

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Goodwill and Intangible Assets

Goodwill represents the excess of cost over the fair value of net assets of businesses acquired. The Company accounts for goodwill under the guidance of the ASC Topic 350 – "Intangibles: Goodwill and Other". Goodwill acquired in a purchase business combination and determined to have an indefinite useful life is not amortized, but instead tested for impairment, at least annually, in accordance with this guidance. The recoverability of goodwill is subject to an annual impairment test or whenever an event occurs or circumstances change that would more likely than not result in an impairment. The impairment test is based on the estimated fair value of the underlying businesses and performed in the fourth quarter of each year. Intangible assets consist of patent and technology costs, customer lists and software. Intangible assets are amortized on a straight-line basis over their estimated useful lives, which range from 5 to 10 years. The Company capitalizes internal use software costs incurred during the application development stage. Costs related to preliminary project activities and post implementation activities are expensed as incurred. The Company capitalized $263,000 and $155,000 in software development costs for the years ended December 31, 2014 and 2013, respectively.

Impairment of Long-lived Assets

The Company reviews the recoverability of all long-lived assets, including the related useful lives, whenever events or changes in circumstances indicate that the carrying amount of a long-lived asset might not be recoverable. If required, the Company compares the estimated fair value determined by either the undiscounted future net cash flows or appraised value to the related asset's carrying value to determine whether there has been an impairment. If an asset is considered impaired, the asset is written down to fair value, which is based either on discounted cash flows or appraised values in the period the impairment becomes known. No assets were determined to be impaired as of December 31, 2014 and 2013.

Deferred Revenue

We record revenue on extended service contracts ratably over the term of the related service contracts. Under the provisions of ASC 605, we began to defer revenue related to EECP® system sales for the fair value of installation and in-service training to the period when the services are rendered and for service obligations ratably over the service period, which is generally one year. (See Note J)

Amounts billable under the agreement with GEHC in advance of customer acceptance of the equipment are recorded initially as deferred revenue, and commission revenue is subsequently recognized as customer acceptance of such equipment is reported to us by GEHC.

Warranty Costs

Equipment sold is generally covered by a warranty period of one year. In accordance with ASC Topic 450 "Loss Contingencies", we accrue a warranty reserve for estimated costs of providing a parts only warranty when the equipment sale is recognized.

The factors affecting our warranty liability include the number of units sold and the historical and anticipated rates of claims and costs per claim. (See Note K)

Income Taxes

Deferred income taxes are recognized for temporary differences between financial statement and income tax bases of assets and liabilities and loss carry-forwards for which income tax benefits are expected to be realized in future years. A valuation allowance is established, when necessary, to reduce deferred tax assets to the amount expected to be realized. In estimating future tax consequences, we generally consider all expected future events other than an enactment of changes in the tax laws or rates. Deferred tax assets are continually evaluated for the expected realization. To the extent our judgment regarding the realization of the deferred tax assets changes, an adjustment to the allowance is recorded, with an offsetting increase or decrease, as appropriate, in income tax expense. Such adjustments are recorded in the period in which our estimate as to the realization of the assets changed that it is "more likely than not" that all of the deferred tax assets will be realized. The "realization" standard is subjective and is based upon our estimate of a greater than 50% probability that the deferred tax asset can be realized.

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Deferred tax assets and liabilities are classified as current or non-current based on the classification of the related asset or liability for financial reporting. A deferred tax asset or liability that is not related to an asset or liability for financial reporting, including deferred tax assets related to carry-forwards, are classified according to the expected reversal date of the temporary difference.

The Company also complies with the provisions of ASC Topic 740 “Income Taxes”, which prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by the relevant taxing authority based on the technical merits. The tax benefit recognized is measured as the largest amount of benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement with the relevant taxing authority. Derecognition of a tax benefit previously recognized results in the Company recording a tax liability that reduces ending retained earnings. Based on its analysis, except for certain liabilities assumed in the FGE acquisition, the Company has determined that it has not incurred any liability for unrecognized tax benefits as of December 31, 2014 and December 31, 2013. The Company recognizes accrued interest and penalties related to unrecognized tax benefits as income tax expense. No amounts were accrued for the payment of interest and penalties at December 31, 2014 and December 31, 2013. Generally, the Company is no longer subject to income tax examinations by major domestic taxing authorities for years before 2011. According to the China tax regulatory framework, there is no statute of limitations on examination of tax filings by tax authorities. However, the general practice is going back five years. Management is currently unaware of any issues under review that could result in significant payments, accruals or material deviations from its position.

Foreign Currency Translation Gain (Loss) and Comprehensive Income (Loss)

In countries in which the Company operates, and the functional currency is other than the U.S. dollar, assets and liabilities are translated using published exchange rates in effect at the consolidated balance sheet date. Equity accounts are translated at historical rates except for the changes in retained earnings during the year which is the result of the income statement translation process. Revenues and expenses and cash flows are translated using an approximate weighted average exchange rate for the period. Resulting translation adjustments are recorded as a component of accumulated other comprehensive income on the accompanying consolidated balance sheet. For the years ended December 31, 2014 and 2013, comprehensive income (loss) includes (losses) gains of ($14,000) and $74,000, respectively, which were entirely from foreign currency translation.

Fair Value of Financial Instruments

The Company complies with the provisions of ASC 820 “Fair Value Measurements and Disclosures” (“ASC 820”). Under ASC 820, 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. ASC 820 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.

Vasomedical, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable approximate fair value due to the short-term maturities of the instruments.

Net Income (Loss) Per Common Share

Basic income (loss) per common share is based on the weighted average number of common shares outstanding without consideration of potential common stock. Diluted earnings per common share is based on the weighted number of common and potential dilutive common shares outstanding.

Diluted earnings 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)	
	Year ended December 31, 2014	Year ended December 31, 2013
Basic weighted average shares outstanding	155,362	159,377
Dilutive effect of share-based compensation and options	670	-
Diluted weighted average shares outstanding	156,032	159,377

The following table represents common stock equivalents that were excluded from the computation of diluted earnings per share for the years ended December 31, 2014 and 2013, because the effect of their inclusion would be anti-dilutive.

	(in thousands)	
	Year ended December 31, 2014	Year ended December 31, 2013
Stock options	52	1,780
Common stock grants	-	660
	52	2,440

Reclassifications

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

Recently Issued Accounting Pronouncements

The Company continually assesses any new accounting pronouncements to determine their applicability to the Company. Where it is determined that a new accounting pronouncement affects the Company's financial reporting, the Company undertakes a study to determine the consequence of the change to its financial statements and assures that there are proper controls in place to ascertain that the Company's consolidated financial statements properly reflect the change. New pronouncements assessed by the Company recently are discussed below:

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Standards Issued not yet adopted

In May 2014, the FASB issued ASU 2014-09 "Revenue from contracts with customers", a comprehensive new revenue recognition standard which will supersede previous existing revenue recognition guidance. The standard creates a five-step model for revenue recognition that requires companies to exercise judgment when considering contract terms and relevant facts and circumstances. The five-step model includes (1) identifying the contract, (2) identifying the separate performance obligations in the contract, (3) determining the transaction price, (4) allocating the transaction price to the separate performance obligations and (5) recognizing revenue when each performance obligation has been satisfied. The standard also requires expanded disclosures surrounding revenue recognition. The standard is effective for fiscal periods beginning after December 15, 2016 and allows for either full retrospective or modified retrospective adoption.

The Company is currently evaluating the impact of the adoption of this standard on its Consolidated Financial Statements.

NOTE C – SEGMENT REPORTING

The Company views its business in three segments – the Sales Representation segment, the Equipment segment, and the IT segment. The Sales Representation segment operates through the Vaso Diagnostics subsidiary and is currently engaged solely in the fulfillment of the Company's responsibilities under our agreement with GEHC. The Equipment segment is engaged in designing, manufacturing, marketing and supporting EECP® enhanced external counterpulsation systems both domestically and internationally, as well as the development, production, marketing and supporting of other medical devices. The Company's new subsidiary, VasoHealthcare IT Corp., formed to conduct its healthcare IT operations, reports through the IT segment. Operations in the IT segment began in the third quarter of 2014. The chief operating decision maker is the Company's Chief Executive Officer, who in conjunction with upper management, evaluates segment performance based on operating income. Administrative functions such as finance, human resources, and information technology are centralized and related expenses allocated to each segment. Other costs not directly attributable to operating segments, such as audit, legal, director fees, investor relations, and others, as well as certain assets – primarily cash balances – are reported in the Corporate entity below. There are no intersegment revenues. Summary financial information for the segments is set forth below:

(in thousands)

	As of or for the year ended December 31, 2014				
	Sales Representation Segment	Equipment Segment	IT Segment	Corporate	Consolidated
Revenues from external customers	$30,236	$4,670	$48	$-	$ 34,954
Operating income (loss)	$5,997	$(2,828)	$(539)	$(1,567)	$ 1,063
Total assets	$21,966	$10,012	$61	$8,952	$ 40,991
Accounts and other receivables, net	$14,306	$915	$52	$-	$ 15,273
Deferred commission expense	$2,200	$-	$-	$-	$ 2,200
Other assets	$4,888	$716	$-	$13	$ 5,617

	As of or for the year ended December 31, 2013				
			IT Segment	Corporate	Consolidated

	Sales Representation Segment	Equipment Segment			
Revenues from external customers	$26,628	$6,262	$-	$-	$ 32,890
Operating income (loss)	$2,475	$(2,418)	$-	$(1,347)	$ (1,290)
Total assets	$18,085	$7,907	$-	$7,525	$ 33,517
Accounts and other receivables, net	$12,637	$933	$-	$-	$ 13,570
Deferred commission expense	$2,312	$-	$-	$-	$ 2,312
Other assets	$2,659	$426	$-	$13	$ 3,098

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For the years ended December 31. 2014 and 2013, GEHC accounted for 87% and 81% of revenue, respectively. Also, GEHC accounted for $14.2 million, or 93%, and $12.5 million, or 92%, of accounts and other receivables at December 31, 2014 and December 31, 2013, respectively.

Our revenues were derived from the following geographic areas:

	(in thousands)	
	For the year ended December 31, 2014	For the year ended December 31, 2013
Domestic (United States)	$32,905	$29,431
Non-domestic (foreign)	2,049	3,459
	$34,954	$32,890

NOTE D – FAIR VALUE MEASUREMENTS

The Company’s assets recorded at fair value have been categorized based upon a fair value hierarchy in accordance with ASC 820.

The following table presents information about the Company’s assets measured at fair value as of December 31, 2014:

	(in thousands)			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of December 31, 2014
Assets				
Cash equivalents invested in money market funds (included in cash and cash equivalents)	$8,149	$-	$ -	$8,149

The following table presents information about the Company’s assets measured at fair value as of December 31, 2013:

	(in thousands)			
	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of December 31, 2013

	(Level 1)			
Assets				
Cash equivalents invested in money market funds (included in cash and cash equivalents)	$6,883	$-	$ -	$6,883

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

Vasomedical, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE E – ACCOUNTS AND OTHER RECEIVABLES

The following table presents information regarding the Company's accounts and other receivables as of December 31, 2014 and 2013:

	(in thousands) December 31, 2014	December 31, 2013
Trade receivables	$19,734	$17,173
Due from employees	110	161
Allowance for doubtful accounts and commission adjustments	(4,571)	(3,764)
Accounts and other receivables, net	$15,273	$13,570

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 estimated future changes in sales order amounts that may reduce the amount the Company will ultimately receive under the GEHC Agreement. Due from employees primarily reflects commission advances made to sales personnel.

NOTE F – INVENTORIES, NET

Inventories, net of reserves consisted of the following:

	(in thousands) December 31, 2014	December 31, 2013
Raw materials	$583	$790
Work in process	679	291
Finished goods	636	537
	$1,898	$1,618

At December 31, 2014 and 2013, the Company maintained reserves for slow moving and obsolete inventories of $815,000 and $803,000, respectively.

Vasomedical, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE G – PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows:

	(in thousands)	
	December 31, 2014	December 31, 2013
Office, laboratory and other equipment	$1,114	$1,049
EECP® systems under operating leases		
or under loan for clinical trials	376	369
Furniture and fixtures	173	228
	1,663	1,646
Less: accumulated depreciation	(1,397)	(1,281)
Property and equipment, net	$266	$365

Depreciation expense amounted to approximately $187,000 and $213,000 for the years ended December 31, 2014 and 2013, respectively.

NOTE H – GOODWILL AND OTHER INTANGIBLES

All goodwill is attributable to the Equipment segment. The change in the carrying amount of goodwill was as follows:

	(in thousands)
	Carrying Amount
Balance at December 31, 2013	$3,303
Foreign currency translation	(15)
Balance at December 31, 2014	$3,288

The Company’s other intangible assets consist of capitalized patent and technology costs, customer lists, and software costs, as set forth in the following:

Vasomedical, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	(in thousands) December 31, 2014	December 31, 2013
Patents and Technology		
Costs	$2,489	$469
Accumulated amortization	(549)	(454)
	1,940	15
Customer lists		
Costs	800	800
Accumulated amortization	(381)	(267)
	419	533
Software		
Costs	962	696
Accumulated amortization	(495)	(424)
	467	272
	$2,826	$820

The Company owns eleven US patents including eight utility and three design patents that expire at various times through 2023, and, through our Chinese subsidiaries, six utility patents and one design patent expiring at various times through 2027. Costs incurred for submitting the applications to the United States Patent and Trademark Office and other foreign authorities for these patents have been capitalized. Patent and technology costs are being amortized using the straight-line method over 10-year and 8-year lives, respectively. The Company begins amortizing patent costs once a filing receipt is received stating the patent serial number and filing date from the Patent Office or other foreign authority. Customer lists and software are amortized on a straight-line basis over their expected useful lives of seven and five years, respectively.

Amortization expense amounted to approximately $280,000 and $169,000 for the years ended December 31, 2014 and 2013, respectively. Amortization of intangibles for the next five years is:

	(in thousands) 2015	2016	2017	2018	2019
Amortization expense	$483	$488	$476	$432	$282

NOTE I – OTHER ASSETS

Other assets consist of the following at December 31, 2014 and 2013:

	(in thousands) December 31, 2014	December 31, 2013

Deferred commission expense - noncurrent	$2,988	$1,667
Trade receivables - noncurrent	2,171	1,181
Other	458	250
	$5,617	$3,098

Vasomedical, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE J – DEFERRED REVENUE

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

	(in thousands) For the year ended December 31, 2014	For the year ended December 31, 2013
Deferred revenue at the beginning of the year	$18,019	$15,602
Additions:		
Deferred extended service contracts	912	1,048
Deferred in-service and training	40	33
Deferred service arrangements	88	96
Deferred commission revenues	17,992	14,495
Recognized as revenue:		
Deferred extended service contracts	(869)	(991)
Deferred in-service and training	(50)	(28)
Deferred service arrangements	(96)	(74)
Deferred commission revenues	(13,504)	(12,162)
Deferred revenue at end of year	22,532	18,019
Less: current portion	9,882	10,541
Long-term deferred revenue at end of year	$12,650	$7,478

NOTE K – ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses and other liabilities consist of the following at December 31, 2014 and 2013:

	(in thousands) December 31, 2014	December 31, 2013
Accrued compensation	$2,915	$2,123
Accrued expenses - other	1,098	1,982
Other liabilities	1,570	1,466
	$5,583	$5,571

Included in other liabilities is the Company's product warranty liability. Changes in product warranty liability are as follows:

	(in thousands) For the year ended December 31, 2014	2013
Warranty liability at the beginning of the year	$33	$26
Expense for new warranties issued	8	57
Warranty claims	(38)	(50)
Warranty liability at the end of the year	3	33

Long-term warranty liability at the end of the year	$-	$-

NOTE L – RELATED-PARTY TRANSACTIONS

David Lieberman, a practicing attorney in the State of New York, serves as Vice Chairman of the Board of Directors. He is currently a senior partner at the law firm of Beckman, Lieberman & Barandes, LLP, which performs certain legal services for the Company. Fees of approximately $240,000 and $247,000 were billed by the firm for the years ended December 31, 2014 and 2013, respectively, at which dates no amounts were outstanding.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2014 and 2013, $3,000 in unsecured loans were payable to an employee of LET and $21,000 in advances were due from employees of FGE. These loans and advances are short term and do not bear interest.

On August 6, 2014 the Company acquired all of the outstanding shares of Genwell Instruments Co. Ltd. (Genwell), located in Wuxi, China, through its wholly owned subsidiary Wuxi Gentone Instruments Co. Ltd. (Gentone) for cash and notes of Chinese Yuan RMB13,250,000 (approximately $2,151,000 at the acquisition date – see Note P). Genwell was formed in China in 2010 with the assistance of a government grant to develop the MobiCareTM wireless multi-parameter patient monitoring system and holds the patents and intellectual property rights for this system. The president of our subsidiary Life Enhancement Technologies Ltd. and the president and vice-president of Biox Instruments Company Ltd. together owned 80.9% of Genwell at the time of acquisition. The President and CEO of the Company was appointed the nominee Chairman of Genwell at its formation for the sole purpose of applying for the government grant available only to overseas Chinese persons. He has never received any compensation from Genwell nor held any ownership interest in Genwell. The Company has received a fairness opinion for this transaction from an independent certified appraisal firm and a legal opinion from Chinese counsel. At December 31, 2014, unsecured notes and accrued interest aggregating $1,036,000 are payable to the president of Life Enhancement Technologies Ltd. and the president of Biox Instruments Company Ltd.

NOTE M– DEBT

In November 2014, Biox entered into an unsecured term loan of Chinese Yuan RMB1,000,000 (approximately $163,000) with a Chinese bank. The loan term is one year and bears interest at 6.72%, payable monthly.

NOTE N– STOCKHOLDERS' EQUITY

Common stock

In April 2013, the Company's Board of Directors authorized a share repurchase program of up to $1.5 million, which was subsequently increased in July 2013 to $2.0 million, of the Company's common stock. During the years ended December 31, 2014 and 2013, the Company repurchased 826,686 shares at a cost of $245,000 and 9,481,401 shares at a cost of $1,755,000, respectively, which cost has been recorded as treasury stock in the accompanying consolidated balance sheets as of December 31, 2014 and 2013.

In December 2014, 250,000 shares were issued to an officer and 200,000 shares were issued to a director upon exercise of stock options.

Preferred stock

At December 31, 2014 and 2013, the Company had 1,000,000 shares of preferred stock authorized. There were no shares issued and outstanding at December 31, 2014 and 2013.

Chinese subsidiaries dividends and statutory reserves

The payment of dividends by entities organized in China is subject to limitations. In particular, regulations in China currently permit payment of dividends only out of accumulated profits as determined in accordance with PRC accounting standards and regulations. Based on People's Republic of China (PRC) accounting standards, our Chinese subsidiaries are also required to set aside at least 10% of after-tax profit each year to their general reserves until the accumulative amount of such reserves reaches 50% of the registered capital. As of December 31, 2014 and 2013, statutory reserves aggregating approximately $35,000 were recorded in the Company's consolidated balance sheets. These reserves are not distributable as cash dividends. In addition, they are required to allocate a portion of their after-tax profit to their staff welfare and bonus fund at the discretion of their respective boards of directors. Moreover, if any of our PRC subsidiaries incurs debt on its own behalf in the future, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us. Distribution of dividends from the Chinese operating companies to foreign shareholders is subject to a 10% withholding tax.

Vasomedical, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE O- OPTION PLANS

1999 Stock Option Plan

In July 1999, the Company's Board of Directors approved the 1999 Stock Option Plan ("the 1999 Plan"), for which the Company reserved an aggregate of 2,000,000 shares of common stock. The 1999 Plan provides that a committee of the Board of Directors of the Company will administer it and that the committee will have full authority to determine the identity of the recipients of the options and the number of shares subject to each option. Options granted under the 1999 Plan may be either incentive stock options or non-qualified stock options. The option price shall be 100% of the fair market value of the common stock on the date of the grant (or in the case of incentive stock options granted to any individual principal stockholder who owns stock possessing more than 10% of the total combined voting power of all voting stock of the Company, 110% of such fair market value). The term of any option may be fixed by the committee but in no event shall exceed ten years from the date of grant. Options are exercisable upon payment in full of the exercise price, either in cash or in common stock valued at fair market value on the date of exercise of the option. In July 2000, the Company's Board of Directors increased the number of shares authorized for issuance under the 1999 Plan by 1,000,000 shares to 3,000,000 shares. In December 2001, the Board of Directors of the Company increased the number of shares authorized for issuance under the 1999 Plan by 2,000,000 shares to 5,000,000 shares.

The term for which options may be granted under the 1999 Plan expired July 12, 2009.

During the year ended December 31, 2014, options to purchase 90,000 shares of common stock under the 1999 Plan at an exercise price of $1.11 were retired.

2004 Stock Option and Stock Issuance Plan

In October 2004, the Company's stockholders approved the 2004 Stock Option and Stock Issuance Plan ("the 2004 Plan"), for which the Company reserved an aggregate of 2,500,000 shares of common stock. The 2004 Plan is divided into two separate equity programs: (i) the Option Grant Program under which eligible persons ("Optionees") may, at the discretion of the Board of Directors, be granted options to purchase shares of common stock; and (ii) the Stock Issuance Program under which eligible persons ("Participants") may, at the discretion of the Board of Directors, be issued shares of common stock directly, either through the immediate purchase of such shares or as a bonus for services rendered to the Company.

Options granted under the 2004 Plan shall be non-qualified or incentive stock options and the exercise price is the fair market value of the common stock on the date of grant except that for incentive stock options it shall be 110% of the fair market value if the Optionee owns 10% or more of our common stock. The term of any option may be fixed by the Board of Directors or committee but in no event shall exceed ten years from the date of grant. Stock options granted under the 2004 Plan may become exercisable in one or more installments in the manner and at the time or times specified by the committee. Options are exercisable upon payment in full of the exercise price, either in cash or in common stock valued at fair market value on the date of exercise of the option. The term for which options or stock may be granted under the 2004 Plan expired July 12, 2014.

Under the stock issuance program, the purchase price per share shall be fixed by the Board of Directors or committee but cannot be less than the fair market value of the common stock on the issuance date. Payment for the shares may be made in cash or check payable to us, or for past services rendered to us and all shares of common stock issued thereunder shall vest upon issuance unless otherwise directed by the committee. The number of shares issuable is also subject to adjustments upon the occurrence of certain events, including stock dividends, stock splits, mergers, consolidations, reorganizations, recapitalizations, or other capital adjustments.

Vasomedical, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The 2004 Plan provides that a committee of the Board of Directors of the Company will administer it and that the committee will have full authority to determine and designate the individuals who are to be granted stock options or qualify to purchase shares of common stock under the 2004 Plan, the number of shares to be subject to options or to be purchased and the nature and terms of the options to be granted. The committee also has authority to interpret the 2004 Plan and to prescribe, amend and rescind the rules and regulations relating to the 2004 Plan.

During the year ended December 31, 2014, options to purchase 287,864 shares of common stock under the 2004 Plan at exercise prices ranging from $0.22 to $0.58 were retired.

2010 Stock Option and Stock Issuance Plan

On June 17, 2010 the Board of Directors approved the 2010 Stock Plan (the “2010 Plan”) for officers, directors, employees and consultants of the Company. The stock issuable under the 2010 Plan shall be shares of the Company’s authorized but unissued or reacquired common stock. The maximum number of shares of common stock which may be issued under the 2010 Plan is 5,000,000 shares.

The 2010 Plan is comprised of two separate equity programs, the Options Grant Program, under which eligible persons may be granted options to purchase shares of common stock, and the Stock Issuance Program, under which eligible persons may be issued shares of common stock directly, either through the immediate purchase of such shares or as a bonus for services rendered to the Company.

The 2010 Plan provides that the Board of Directors, or a committee of the Board of Directors, will administer it with full authority to determine the identity of the recipients of the options or shares and the number of options or shares. Options granted under the 2010 Plan may be either incentive stock options or non-qualified stock options. The option price shall be 100% of the fair market value of the common stock on the date of the grant (or in the case of incentive stock options granted to any individual stockholder possessing more than 10% of the total combined voting power of all voting stock of the Company, 110% of such fair market value). The term of any option may be fixed by the Board of Directors, or its authorized committee, but in no event shall it exceed five years from the date of grant. Options are exercisable upon payment in full of the exercise price, either in cash or in common stock valued at fair market value on the date of exercise of the option.

During the year ended December 31, 2013, 85,000 restricted shares of common stock were granted under the 2010 Plan to employees of the Company, all of which vested immediately. As of December 31, 2013, 105,000 additional shares were forfeited and 204,662 additional shares were withheld for withholding taxes.

During the year ended December 31, 2014, 1,090,000 restricted shares of common stock were granted under the 2010 Plan to employees, officers, and directors of the Company, vesting at various times through September 2017.

No options were issued under the 2010 Plan during the years ended December 31, 2014 and 2013.

2013 Stock Option and Stock Issuance Plan

On October 30, 2013, the Board of Directors approved the 2013 Stock Plan (the “2013 Plan”) for officers, directors, employees and consultants of the Company. The stock issuable under the 2013 Plan shall be shares of the Company’s authorized but unissued or reacquired common stock. The maximum number of shares of common stock which may be issued under the 2013 Plan is 7,500,000 shares.

The 2013 Plan is comprised of two separate equity programs, the Options Grant Program, under which eligible persons may be granted options to purchase shares of common stock, and the Stock Issuance Program, under which eligible persons may be issued shares of common stock directly, either through the immediate purchase of such shares or as a bonus for services rendered to the Company.

Vasomedical, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

During the year ended December 31, 2014, 290,000 restricted shares of common stock were granted under the 2013 Plan to employees of the Company, vesting at various times through September 2017 and 30,012 shares were withheld for withholding taxes.

No options were issued under the 2013 Plan during the years ended December 31, 2014 and 2013.

Stock option activity under all the plans for the years ended December 31, 2014 is summarized as follows:

	Outstanding Options			
	Shares Available for Future Issuance	Number of Shares	Range of Exercise Price per Share	Weighted Average Exercise Price
Balance at December 31, 2013	785,224	1,779,776	0.08 - $$1.11	$0.22
Options granted	-			
Options exercised	-	(450,000)		$0.08
Options canceled under 1999 Plan	-	(90,000)		$1.11
Options canceled under 2004 Plan	-	(287,864)		$0.33
Expiration of 2004 Stock option plan	(785,224)			
Balance at December 31, 2014	-	951,912	0.12 - $$0.58	$0.17

The following table summarizes information about stock options outstanding and exercisable at December 31, 2014:

	Options Outstanding			Options Exercisable	
	Number Outstanding at December 31, 2014	Weighted Average Remaining Contractual Life (yrs.)	Weighted Average Exercise Price	Number Exercisable at December 31, 2014	Weighted Average Exercise Price
Range of Exercise Prices					
0.12 - $$0.58	951,912	2.0	$0.17	951,912	$0.17

The following table summarizes non-vested common shares for the year ended December 31, 2014:

	Shares Available for Future Issuance	Unvested shares	Weighted Average Grant Date Fair Value

Balance at December 31, 2013	8,591,222	375,000	$0.29
Granted	(1,380,000)	1,380,000	$0.30
Vested		(1,159,988)	$0.32
Forfeited	30,012	(30,012)	$0.19
Balance at December 31, 2014	7,241,234	565,000	$0.27

The aggregate intrinsic value of options outstanding and currently exercisable was $30,000 at December 31, 2014. There were 75,091,484 remaining authorized shares of common stock after reserves for all stock option plans.

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NOTE P – BUSINESS COMBINATION

On August 6, 2014 the Company acquired all of the outstanding shares of Genwell Instruments Co. Ltd. (Genwell), located in Wuxi, China, through its wholly owned subsidiary Wuxi Gentone Instruments Co. Ltd. (Gentone) for cash and notes of Chinese Yuan RMB13,250,000 (approximately $2,151,000 at the acquisition date). The notes totaling RMB6,250,000 (approximately $1,015,000) are payable one year from the closing date with interest at the rate of 5% per annum. Genwell was formed in China in 2010 with the assistance of a government grant to develop the MobiCareTM wireless multi-parameter patient monitoring system and holds the patents and intellectual property rights for this system. The primary purpose of the acquisition was to acquire ownership of the developed product including CFDA clearance as well as these patents and intellectual property.

The operating results of Genwell from August 6, 2014 to December 31, 2014 are included in the accompanying consolidated statements of operations and comprehensive income (loss) for the year ended December 31, 2014. The accompanying consolidated balance sheet at December 31, 2014 reflects the acquisition of Genwell effective August 6, 2014.

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 August 6, 2014 (the acquisition date). The purchase price was allocated based on the information currently available, and may be adjusted after obtaining more information regarding, among other things, asset valuations, liabilities assumed, and revisions of preliminary estimates. The following table summarizes the estimated fair values of the net assets acquired:

	(in thousands)
Cash and cash equivalents	$113
Accounts receivable and other current assets	2
Property and equipment	3
Intangible assets	2,033
Net assets acquired	$2,151

During the year ended December 31, 2014, the Company expensed $8,000 of acquisition-related legal costs. The costs are included in the line item Selling, General & Administrative costs in the accompanying consolidated statements of operations and comprehensive income (loss). The amounts of revenue and net loss of Genwell included in the Company's consolidated statements of operations and comprehensive income (loss) for the year ended December 31, 2014 was $0 and $29,000, respectively. Genwell is not expected to report future revenue as the sales of its principal product, MobiCareTM will be through Biox. Genwell may engage in research and product development activities in the future. The following unaudited supplemental pro forma information presents the financial results as if the acquisition of Genwell had occurred January 1, 2013:

	(in thousands)	
	Year ended December 31, 2014	Year ended December 31, 2013

Revenue	$34,981	$32,890
Net income (loss)	1,048	(1,508)
Basic earnings (loss) per share	$0.01	$(0.01)
Diluted earnings (loss) per share	$0.01	$(0.01)

An adjustment was made to the unaudited pro forma financial information to reflect the acquisition-related costs in the year ended December 31, 2013.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE Q- INCOME TAXES

As of December 31, 2014, the recorded deferred tax assets were $18,544,000, reflecting a decrease of $497,000 during the year ended December 31, 2014, which was offset by a valuation allowance the same amount. The Company also recorded a net deferred tax liability of $112,000 as of December 31, 2014 and 2013, which arose from pre-acquisition FGE operations, primarily related to revenue recognized for book prior to recognition for tax.

The Company's deferred tax assets are summarized as follows:

	(in thousands)	
	December 31, 2014	December 31, 2013
Net operating loss carryforwards	$16,014	$17,155
Depreciation and amortization	219	136
Stock-based compensation	33	21
Allowance for doubtful accounts	14	66
Reserve for obsolete inventory	301	289
Tax credits	381	370
Expense accruals	315	175
Deferred revenue	1,267	829
Total gross deferred taxes	18,544	19,041
Valuation allowance	(18,544)	(19,041)
Net deferred tax assets	$-	$-

The activity in the valuation allowance is set forth below:

	(in thousands)	
	2014	2013
Valuation allowance, January 1,	$19,041	$18,147
Change in valuation allowance	(497)	894
Valuation allowance, December 31,	$18,544	$19,041

At December 31, 2014, the Company had net operating loss carryforwards for federal and state income tax purposes of approximately $40 million expiring at various dates from 2019 through 2033. Approximately $0 million and $4.4 million of net operating loss carryforwards expired in the years ended December 31, 2014 and 2013, respectively.

Income tax expense for the year ended December 31, 2014 was $127,000 and consisted mainly of federal alternative minimum taxes and state taxes. The Company recorded an income tax benefit of $58,000 for the year ended December 31, 2013 arising from a Federal refund of $97,000 related to a prior period amended return, partially offset by $52,000 in foreign income tax expense.

Under current tax law, the utilization of tax attributes will be restricted if an ownership change, as defined, were to occur. Section 382 of the Internal Revenue Code provides, in general, that if an "ownership change" occurs with respect to a corporation with net operating and other loss carryforwards, such carryforwards will be available to offset taxable income in each taxable year after the ownership change only up to the "Section 382 Limitation" for each year (generally, the product of the fair market value of the corporation's stock at the time of the ownership change, with certain adjustments, and a specified long-term tax-exempt bond rate at such time). The Company's ability to use its loss carryforwards will be limited in the event of an ownership change.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following is a reconciliation of the effective income tax rate to the federal statutory rate:

	For the year ended December 31, 2014	December 31, 2013
	%	%
Federal statutory rate	34.00	34.00
State income taxes	6.00	6.00
Change in valuation allowance relating to operations	-	-
Utilizations of net operating loss carryforward	(40.00)	(40.00)
Foreign taxes	2.28	4.32
Alternative minimum tax	4.28	(8.37)
Other	3.58	(0.77)
	10.14	(4.82)

The foreign tax effective rate decreased mainly due to lower taxable income at Biox. The alternative minimum tax (AMT) rate increased due to the change from a taxable loss to taxable income in the year ended December 31, 2014, and to a Federal AMT refund on an amended prior period return recognized in the year ended December 31, 2013.

NOTE R- COMMITMENTS AND CONTINGENCIES

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.

Facility Leases

On August 15, 2007, we sold our facility in Westbury, New York under a five-year leaseback agreement, which expired in August 2012. In September 2012, the term of the lease was extended for an additional three years. The Company also leases offices in New York City under a five-year agreement expiring May 2017. FGE leases facilities in Wuxi, China, pursuant to leases expiring in December 2015 and March 2018, and a facility in Foshan, China, pursuant to a lease that expires in April 2016.

Vehicle Lease Agreement

In June 2011, the Company began taking deliveries under a closed-end master lease agreement for the provision of vehicles to the sales team of its Sales Representation segment. Vehicles obtained under the terms of the agreement are leased generally for a 36-month term, and payments are fixed for each year of the agreement, subject to readjustment at the beginning of the second and third year.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Future rental payments under these operating leases aggregate approximately as follows:

For the years ended December 31,

	(in thousands)			
	Vehicles	Facilities	Equipment	Total
2015	$288	$225	$34	$547
2016	206	96	12	314
2017	93	66	-	159
2018	-	12	-	12
2019	-	-	-	-
Total	$587	$399	$46	$1,032

Rental expense for all operating leases totaled approximately $620,000 and $646,000 for the years ended December 31, 2014 and 2013, respectively.

Employment Agreement

On March 21, 2011, the Company entered into an Employment Agreement with its President and Chief Executive Officer, Dr. Jun Ma, for a three-year term ending on March 14, 2014. The agreement was amended in 2013 to provide for a continuing three-year term, unless earlier terminated by the Company, but in no event can extend beyond March 14, 2019. The Employment Agreement currently provides for annual compensation of $275,000. Dr. Ma shall be eligible to receive a bonus for each fiscal year thereafter during the employment term. The amount and the occasion for payment of such bonus, if any, shall be at the discretion of the Board of Directors. Dr. Ma shall also be eligible for an award under any long-term incentive compensation plan and grants of options and awards of shares of the Company's stock, as determined at the Board of Directors' discretion. The Employment Agreement further provides for reimbursement of certain expenses, and certain severance benefits in the event of termination prior to the expiration date of the Employment Agreement.

Litigation

The Company is currently, and has been in the past, a party to various routine legal proceedings 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.

Foreign operations

During the years ended December 31, 2014 and 2013, the Company had and continues to have operations in China. Operating transactions in China are denominated in RMB, which is not freely convertible into foreign currencies. Operating internationally involves additional risks relating to such things as currency exchange rates, different legal and regulatory environments, political, economic risks relating to the stability or predictability of foreign governments, differences in the manner in which different cultures do business, difficulties in staffing and managing foreign operations, differences in financial reporting, operating difficulties, and other factors. The occurrence of any of these risks, if severe enough, could have a material adverse effect on the consolidated financial position, results of operations and cash flows of the Company.

Commercial law is still developing in China and there are limited legal precedents to follow in commercial transactions. There are many tax jurisdictions each of which may have changing tax laws. Applicable taxes include value added taxes (VAT), corporate income tax, and social (payroll) taxes. Regulations are often unclear. Tax declarations (reports) are subject to review and taxing authorities may impose fines, penalties and interest. These facts create risks in China.

Vasomedical, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE S- 401(K) PLAN

In April 1997, the Company adopted the Vasomedical, Inc. 401(k) Plan to provide retirement benefits for its employees. As allowed under Section 401(k) of the Internal Revenue Code, the plan provides tax-deferred salary deductions for eligible employees. Employees are eligible to participate in the next quarter enrollment period after employment. Participants may make voluntary contributions to the plan up to 80% of their compensation. In the years ended December 31, 2014 and 2013 the Company made discretionary contributions of approximately $85,000 and $62,000, respectively, to match a percentage of employee contributions.