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VASOMEDICAL INC
Form 10-K/A
September 28, 2006

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K/A
Amendment No. 1

☒ ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the fiscal year ended May 31, 2006

☐ TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the transition period from _____ to _____

Commission File No. 0-18105

VASOMEDICAL, INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

11-2871434
(IRS Employer
Identification No.)

180 Linden Avenue, Westbury, New York
(Address of Principal Executive Offices)

11590
(Zip Code)

Registrant's telephone number, including area code: (516) 997-4600

Securities registered under Section 12(b) of the Act: None

Securities registered under Section 12(g) of the Act:
Common Stock, \$.001 par value
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by a check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes ☒ No ☐

Indicate by a check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.
☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. Large Accelerated Filer ☐ Accelerated Filer ☐ Non-Accelerated Filer ☒

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant (based on the closing sale price of \$0.42 as of November 30, 2005, was approximately \$23,831,000. Shares of common stock held by each officer and director and by each person who owns 5% or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. The determination of affiliates status is not necessarily a conclusive determination for other purposes.

At August 16, 2006, the number of shares outstanding of the issuer's common stock was 65,198,592.

DOCUMENTS INCORPORATED BY REFERENCE

None

EXPLANATORY NOTE

Vasomedical, Inc. (the "Company," "we," "us," or "our") is filing this Amendment No. 1 on Form 10-K/A to our Report on Form 10-K for the fiscal year ended May 31, 2006 (the "Report") for the purpose of including information that was to be incorporated by reference from our definitive proxy statement pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, (the "Exchange Act"). We will not file our proxy statement within 120 days of our fiscal year ended May 31, 2006, and are, therefore, amending and restating in their entirety Items 10, 11, 12, 13 and 14 of Part III of the Report.

Except as described above, no other amendments are being made to this Report. This Form 10-K/A does not reflect events occurring after the August 28, 2006 filing of our Report or modify or update the disclosure contained in the Report in any way other than as required to reflect the amendments discussed above and reflected below.

This amendment should be read in conjunction with our Annual Report for the year ended May 31, 2006 filed on Form 10-K on August 28, 2006.

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PART III

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PART III

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ITEM 10 - DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Directors of the Registrant

Name of Director -----	Age -----	Principal Occupation -----	
Abraham E. Cohen (5)	70	Chairman, Independent consultant	June
Thomas Glover	52	President and Chief Executive Officer	Octob
John C.K. Hui, PhD(4)	60	Chief Technology Officer	Febru
Photios T. Paulson (1) (2) (3)	67	Independent consultant	April
Kenneth W. Rind, PhD(1) (4)	71	Independent consultant	Febru
Martin Zeiger (2) (3) (4)	69	Independent consultant	Octob

The following is a brief account of the business experience for at least the past five years of our directors:

Abraham E. Cohen has been our Chairman of the Board since June 1994 and is presently an independent consultant. He retired in 1992 as Senior Vice President of Merck & Co., Inc., a position he was elected to in 1985. From 1979 to 1989, Mr. Cohen was also President of Merck Sharp & Dohme International, a division of Merck & Co., Inc. Mr. Cohen is a director of the following public companies: Akzo Nobel Nv., Chugai Pharmaceutical Co., Ltd., Neurobiological Technologies, Inc. and Teva Pharmaceutical Industries, Ltd.

Thomas Glover has been President and Chief Executive Officer and a director since October 2004. Prior to joining Vasomedical, Mr. Glover was the acting President and CEO and advisor to Incapex, Inc. a privately held medical device company. He was the President and CEO of Vasca, Inc. from 1999 to 2003 and served as Executive Vice President, Johnson and Johnson Professional, Inc. from 1997 to 1999. From 1983 to 1996, Mr. Glover held several executive positions with responsibility for U.S and international business for Davis and Geck (American Cyanamid Company/American Home Products). He is currently a director of Incapex, Inc.

John C.K. Hui, PhD, our Chief Technology Officer, has been a director and Senior Vice President since February 1995. Dr. Hui has been an Assistant Professor in the Department of Surgery and Division of Cardiology at the State University of Stony Brook, New York since 1978. He has also been a scientist in the medical department of Brookhaven National Laboratories. Dr. Hui was CEO and president of and a principal stockholder in Vasogenics, Inc. at the time of its acquisition by us in January 1995.

Photios T. Paulson has been a director since April 2000 and has served as our Chief Executive Officer from October 2002 through June 2003 and from March to October 2004. Mr. Paulson has been an advisor to the health care industry and was Vice President of bioMerieux N.A. Inc. from 1995 to 2002. Between 1992 and 1995, Mr. Paulson was Chairman of bioMerieux Vitek Inc. Between 1987 and 1990, he was Senior Advisor, Health Care Industry, for Prudential Securities. Mr. Paulson previously held senior positions with Becton Dickinson and Company through 1987. Mr. Paulson is a director of bioMerieux N.A. Inc. and Silliker Group Inc.

Kenneth W. Rind, PhD has been Chairman of Oxford Venture Corporation, an independent venture capital company, since 1981 and in 1998 was a founding General Partner of Israel Infinity Venture Capital Fund. Previously, he was responsible for acquisitions and venture capital investments at Xerox Development Corporation and in charge of technology investment banking at

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Oppenheimer & Co., Inc. (now CIBC). He is a director of several private companies.

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Martin Zeiger is an independent consultant to the pharmaceutical industry. Mr. Zeiger was Senior Vice President of Strategic Business Development for Barr Laboratories, a drug manufacturer, from 1999 through August 2003. From 1987 through 1999, Mr. Zeiger was Executive Vice President and General Counsel for Rugby Laboratories. In 1993 Marion Merrill Dow acquired Rugby Laboratories. Mr. Zeiger was a Vice President of Marion Merrill Dow, Inc. and its successor Hoechst Marion Roussell, Inc. Mr. Zeiger is a member of the Heritage Board of Directors of the American Heart Association in New York and a founding director of the Larry King Cardiac Foundation.

Executive Officers of the Registrant

Name of Officer	Age	Position held with the Company
Thomas Glover	52	President and Chief Executive Officer
John C.K. Hui, PhD	60	Chief Technology Officer
Tricia Efstathiou	35	Chief Financial Officer

Tricia Efstathiou was appointed Chief Financial Officer of the Company on September 20, 2006. Prior thereto, Ms. Efstathiou served as Controller of the Company since June 2000.

Committees of the Board of Directors

Executive Committee

Abraham E. Cohen
Photios T. Paulson
Kenneth W. Rind

Audit Committee

Photios T. Paulson
Martin Zeiger

Compensation Committee

Photios T. Paulson
Martin Zeiger

Corporate Governance Committee

John C. K. Hui
Kenneth W. Rind
Martin Zeiger

Compliance with Section 16(a) of The Securities Exchange Act of 1934 - Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires directors, executive officers and persons who beneficially own more than 10% of our common stock (collectively, "Reporting Persons") to file initial reports of ownership and reports of changes in ownership of our common stock with the Securities and

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Exchange Commission. Reporting Persons are required by SEC regulations to furnish us with copies of all Section 16(a) reports they file. To our knowledge, based solely on our review of the copies of such reports received or written representations from certain Reporting Persons that no other reports were required, we believe that during fiscal 2006, all Reporting Persons timely complied with all applicable filing requirements.

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Corporate Governance - Code of Ethics

We have adopted a Corporate Code of Business Ethics (the "Code") that applies to all employees, including our principal executive officer, principal financial officer, and directors of the Company. The Code is broad in scope and is intended to foster honest and ethical conduct, including accurate financial reporting, compliance with laws and the like. If any substantive amendments are made to the Code or if there is any grant of waiver, including any implicit waiver, from a provision of the Code to our Chief Executive Officer or Chief Financial Officer, we will disclose the nature of such amendment or waiver in a report on Form 8-K.

ITEM 11 - EXECUTIVE COMPENSATION

The following table sets forth the annual and long-term compensation of our Chief Executive Officer and each of our most highly compensated officers other than the Chief Executive Officer who were serving as executive officers at the end of the last completed fiscal year, and certain former executive officers as required under SEC rules (collectively, the "Named Executive Officers") for services rendered for the fiscal years ended May 31, 2006, 2005 and 2004.

Summary Compensation Table

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation	
		Salary (2)	Bonus	Other Annual Compensation	Restricted Stock Awards	Share Covered Options Grant
Photios T. Paulson (3) Former CEO	2006	--	--	--	--	--
	2005	\$114,583	--	--	--	100,
	2004	\$20,833	--	--	--	25,
Thomas Glover (4) President and CEO	2006	\$260,000	--	--	--	391,
	2005	\$161,667	--	--	--	1,000,
John C. K. Hui Senior VP, CTO	2006	\$159,510	--	--	--	269,
	2005	\$155,500	--	--	--	50,
	2004	\$150,000	\$25,000	--	--	--
Thomas W. Fry CFO	2006	\$159,510	--	--	--	308,
	2005	\$155,500	--	--	--	50,
	2004	\$109,712	\$33,333	--	--	100,

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Option/SAR Grants in Last Fiscal Year

The following table sets forth the number of options granted to our named executive officers during the fiscal year ended May 31, 2006.

Name	Individual Grants				Poten
	Total	% of	Exercise or	Expiration	Value a
	Number of	Options/SARs to	Base Price	Date	Ra
	Securities	Employees in	(\$/Share)		Appreci
	Underlying	Fiscal Year (3)			
	Options/SAR				
	Granted (#)				5%
	Share)				
Thomas Glover (1)	391,228	11.8%	\$0.30	Various	\$74,2
Thomas W. Fry (2)	308,244	9.3%	\$0.35	Various	\$66,9
John C. K. Hui (2)	269,558	8.1%	\$0.31	Various	\$52,8

Aggregated Option/SAR Exercises in Last Fiscal Year and F/Y-End Option Values

The following table sets forth information for each of the named executive officers with respect to the value of options or warrants exercised during the fiscal year ended May 31, 2006 and the value of outstanding and unexercised options or warrants held as of May 31, 2006, based upon the market value of the common stock of \$0.11 per share on that date.

Name	Shares Acquired on Exercise (#)	Value Realized (1)	Number of Options at Fiscal Year End		Value of U
			Exercisable	Unexercisable	In-the-Mon at Fiscal Y
					at Fiscal Y
Thomas Glover	--	--	1,391,228	--	--
John C. K. Hui	--	--	964,558	--	--
Thomas W. Fry	--	--	458,244	--	--

Deferred Compensation Program

In April 2006, the Company approved a program to defer compensation of certain senior executives of the company and provided incentives to them for these deferrals. The Company agreed to repay monies deferred from zero to six months at 1.5 times the amount deferred; for deferrals of six months to twelve

months, the repaid amount shall be two times the amount deferred; and for deferrals in excess of twelve months, the amount shall be 2.5 times the amount

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deferred. In addition, payment of board of directors meeting fees were deferred until a later date.

Employment Agreements

In December 2005, the Company entered into an agreement with Thomas W. Fry, Chief Financial Officer of the company, which entitled him to twelve months salary in the event of his termination without cause. On September 20, 2006, Mr. Fry resigned as Chief Financial Officer of the Company and his employment agreement was terminated. Mr. Fry continues to act as a consultant to the Company.

Thomas Glover, President and Chief Executive of the Company, entered into an employment agreement with us as of June 22, 2006, which expires on June 21, 2008. The agreement provides for an annual salary of \$260,000 plus incentive compensation of up to 50% of the annual salary. In addition the agreement provides for a payment of twelve months of base salary in the event of a termination without cause, as defined, payable in twelve equal monthly installments.

Director's Compensation

It has been our policy to grant fees of \$1,500 per meeting to each outside director who attends a regularly scheduled or special meeting of its Board of Directors. Fees for committee meetings are \$1,000 per meeting if the meeting is held on a different day than the Board meeting. In addition, we reimburse out-of-state directors for their cost of travel and lodging to attend such meetings.

Our compensation structure for outside directors also includes:

- o a one-time grant of 50,000 non-qualified stock options to outside directors issued on the date of their initial appointment to our Board of Directors at the closing price on the issue date and vesting in three equal annual increments commencing on the first anniversary of the grant and contingent upon their continued service on our Board; and
- o an automatic annual grant of 25,000 non-qualified stock options to outside directors issued on the date of our Annual Meeting of Stockholders at the closing price on the issue date and vesting in three equal annual increments commencing on the first anniversary of the grant and contingent upon their continued service on our Board.

Limitation on Liability of Officers and Directors

We have entered into indemnification agreements with each of our current officers and directors pursuant to which we have agreed, among other things, to indemnify these officers and directors to the fullest extent permitted by Delaware law.

Compensation Committee Interlocks and Insider Participation

During fiscal 2006, our Compensation Committee consisted of Messrs. Bearn, Blumenthal, Shapiro, Viscusi, and Whittaker. None of these persons were our officers or employees during fiscal 2006 or, except as otherwise disclosed, had any relationship requiring disclosure in this Proxy Statement.

In accordance with rules promulgated by the Securities and Exchange Commission, the information included under the caption "Compensation Committee Report on Executive Compensation" will not be deemed to be filed or to be proxy-soliciting material or incorporated by reference in any prior or future filings by the Company under the Securities Act of 1933 or the Securities Exchange Act.

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ITEM 12 - SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth the beneficial ownership of shares of our Series D Convertible Preferred Stock and Common Stock as of September 12, 2006 of (i) each person known by us to beneficially own 5% or more of the shares of outstanding common stock, based solely on filings with the Securities and

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Exchange Commission, (ii) each of our executive officers and directors, and (iii) all of our executive officers and directors as a group. Except as otherwise indicated, all shares are beneficially owned, and investment and voting power is held by the persons named as owners.

Name of Beneficial Owner	Common Stock Beneficially Owned (2)	% of Comm Stock
Abraham E. Cohen.....	1,115,650	1
Thomas W. Fry.....	466,244	*
Thomas Glover.....	1,396,228	2
John C. K. Hui, PhD (4).....	1,753,880	2
Photios T. Paulson.....	486,000	*
Kenneth W. Rind, PhD.....	485,650	*
Martin Zeiger.....	155,000	*
Directors and executive officers as a group (7 persons).....	5,858,652	8

Abraham E. Cohen	525,650	Photios T. Paulson	445,000
Thomas W. Fry	458,244	Kenneth W. Rind, PhD	110,650
Thomas Glover	1,391,228	Martin Zeiger	115,000
John C. K. Hui, PhD	964,558	Directors and executive officers as a group	4,010,330

- Applicable percentages are based on 65,198,592 common shares outstanding on September 12, 2006, adjusted as required by rules promulgated by the Commission.
- Includes 789,322 shares that are held in a trust for the benefit of Dr. Hui's child. Dr. Hui and his wife are the trustees of this trust.

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Equity Compensation Plan Information

The following chart summarizes the options and warrants outstanding and available to be issued at May 31, 2006:

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Plan Category	Number of securities to be issued upon exercise of outstanding options and warrants	Weighted-average exercise price of outstanding options and warrants	Number of remaining future issua compensation securities col
-----	-----	-----	---
	(a)	(b)	
	---	---	
Equity compensation plans approved by security holders	3,700,326	\$1.07	
Equity compensation plans not approved by security holders	4,311,749	\$1.32	
	-----	-----	-----
Total	8,012,075	\$1.20	
	=====	=====	=====

Stock Options and Other Plans

1995 Stock Option Plan

In May 1995, our stockholders approved the 1995 Stock Option Plan for our officers and employees, for which the Company reserved an aggregate of 1,500,000 shares of common stock. In December 1997, our Board of Directors terminated the 1995 Stock Option Plan with respect to new option grants. At May 31, 2006, 972,000 options had been granted, of which 416,000 are outstanding under the 1995 Option Plan.

Outside Director Stock Option Plan

In May 1995, our stockholders approved an Outside Director Stock Option Plan for our non-employee directors, for which we reserved an aggregate of 300,000 shares of common stock. On June 1, 1997, 1996 and 1995, options to purchase an aggregate of 39,550 shares, 31,675 shares, and 77,418 shares of common stock, respectively, at \$1.77, \$2.21, and \$.78 per share, respectively, were granted to outside directors. In December 1997, our Board of Directors terminated the Outside Director Stock Option Plan with respect to new option grants. At May 31, 2006, 28,250 options are outstanding under the Outside Director Stock Option Plan.

1997 Stock Option Plan

In December 1997, our stockholders approved the 1997 Stock Option Plan (the "1997 Plan") for our officers, directors, employees and consultants, for which we have reserved, as amended, an aggregate of 2,800,000 shares of common stock. The 1997 Plan provides that it will be administered by a committee of our Board of Directors 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 1997 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 of our voting stock, 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. The term for which options may be granted under the 1997 Plan expires August 6, 2007. At May 31, 2006, 2,991,168 options had been granted (including options previously granted but subsequently cancelled), of which

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1,404,527 are outstanding under the 1997 Plan.

1999 Stock Option Plan

In July 1999, our Board of Directors authorized the 1999 Stock Option Plan (the "1999 Plan") for our officers, directors, employees and consultants, for which we have reserved, as amended, an aggregate of 5,000,000 shares of common stock. The 1999 Plan provides that it will be administered by a committee of our Board of Directors 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

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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 of our voting stock, 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. The term for which options may be granted under the 1999 Plan expires July 12, 2009. At May 31, 2006, 8,701,932 options had been granted, (including options previously granted but subsequently cancelled), of which 4,311,749 are outstanding under the 1999 Plan.

2004 Stock Option and Stock Issuance Plan

In October 2004, our stockholders approved the 2004 Stock Option and Stock Issuance Plan (the "2004 Stock Plan") for our officers, directors, employees and consultants [and other independent advisors], for which we reserved an aggregate of 2,500,000 shares of common stock. The 2004 Stock Plan is administered by a committee of our Board of Directors, which has full authority to determine the identity of the recipients of the options and the number of shares subject to each option. The 2004 Stock Plan is divided into two separate equity programs: an option grant program and a stock issuance program. Options granted under the 2004 Stock 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 participant owns 10% or more of our common stock. 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 board or 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. At May 31, 2006, 2,118,045 options had been granted, (including options previously granted but subsequently cancelled), of which 1,851,549 are outstanding under the 2004 Stock Plan.

401(k) Plan

In April 1997, we 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 100% of their compensation. In fiscal year 2006,

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2005 and 2004, the Company made discretionary contributions of approximately \$26,752, \$34,766 and \$35,535, respectively, to match a percentage of employee contributions.

ITEM 13 - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Not applicable.

ITEM 14 - PRINCIPAL ACCOUNTANT FEES AND SERVICES

MILLER ELLIN & COMPANY, LLP are our independent registered public accounting firm and performed the audit of our consolidated financial statements for fiscal year 2006. Audits of our consolidated financial statements for fiscal years 2005 and 2004 were performed by GRANT THORNTON LLP. The following table sets forth all fees for the fiscal years ended May 31, 2006 and May 31, 2005:

	2006	2005
	----	----
Audit Fees (1)	\$ 264,000	\$ 279,000
Tax Fees (2)	\$51,000	\$35,000

The Audit Committee has sole authority to appoint, determine funding for, retain and oversee our independent auditors and to pre-approve all audit services and permissible non-audit services. The Audit Committee has delegated to the chairman of the audit committee the authority to pre-approve audit-related and non-audit services not prohibited by law to be performed by our independent registered public accounting firm and associated fees, provided that he reports any pre-approval of audit-related or non-audit related services and fees to the full Audit Committee at its next regular meeting.

MILLER ELLIN & COMPANY, LLP did not render any services related to financial information systems design and implementation during fiscal year 2006. GRANT THORNTON LLP did not render any services related to financial information systems design and implementation during fiscal year 2005.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, we have duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on the 28th day of September, 2006.

VASOMEDICAL, INC.

By: /s/ Thomas Glover

Thomas Glover
President, Chief Executive Officer and Director
(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on September 28, 2006, by the following persons in the capacities indicated:

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/s/ Thomas Glover ----- Thomas Glover	President, Chief Executive Officer and Director (Principal Executive Officer)
----- Abraham E. Cohen	Chairman of the Board
/s/ Tricia Efstathiou ----- Tricia Efstathiou	Chief Financial Officer (Principal Financial Officer)
/s/ John C.K. Hui ----- John C.K. Hui	Senior Vice President, Chief Technology Officer and Director
/s/ Photios T. Paulson ----- Photios T. Paulson	Director
/s/ Kenneth W. Rind ----- Kenneth W. Rind	Director
----- Martin Zeiger	Director