SPIRENT COMMUNICATIONS PLC
Form 6-K
December 11, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16
UNDER THE SECURITIES EXCHANGE ACT OF 1934

For the month of December, 2006

SPIRENT COMMUNICATIONS plc

(Translation of registrant's name into English)

Spirent House, Crawley Business Quarter, Fleming Way, Crawley, West Sussex
RH10 9QL, UK.

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F X Form 40-F.....

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes ..... No X

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82- ________

Spirent Communications plc
11 December 2006

SPIRENT COMMUNICATIONS PLC

FURTHER CIRCULAR TO SHAREHOLDERS

Why shareholders should vote against the EGM resolutions

London, UK - 11 December 2006 Spirent Communications plc ("Spirent" or the "Company") (LSE: SPT; NYSE: SPM), a leading technology communications company, is today posting to its shareholders a circular that reinforces the reasons provided in the Notice of Requisitioned Extraordinary General Meeting issued on 29 November 2006 why the Board recommends shareholders to vote against all the resolutions at the forthcoming Extraordinary General Meeting on 22 December 2006 (the "EGM").

The EGM has been requisitioned by three shareholders led by Sherborne Investors

GP, LLC ("Sherborne"). Sherborne is seeking to gain effective control of the Board of Spirent by replacing three of the Company's non-executive directors, including the Chairman, with four of its own nominees.

Highlights:

- Spirent has taken the actions to turn around the business already and has in place a clear strategy to create more value for shareholders
- The current non-executive team is right for Spirent - Sherborne's proposed directors are wrong for Spirent
- Sherborne's claimed turnaround expertise is not relevant for the next stage of Spirent's development
- Sherborne's proposal is an attempt to take effective control of the Board without paying a premium

Board recommendation to vote against the resolutions
The Spirent Board unanimously recommends shareholders to vote against all the resolutions as it does not believe they are in the best interests of the Company and shareholders as a whole.

Sherborne is a turnaround investment firm. It has no new strategy for Spirent and does not have the relevant expertise or experience to justify its taking control of the Board. Spirent has undergone considerable restructuring in recent years and is poised to take advantage of this hard work and investment. Sherborne's claimed turnaround skills are not relevant to the next stage of Spirent's development. This attempt to take control of the Board would, if successful, result in considerable disruption to Spirent at a key time.

Transformation and turnaround of Spirent underway
The circular sets out how the current Board has transformed Spirent in recent years to the position where it now has a clear strategy to create further value for shareholders. In recent years, key actions have included the sale of HellermannTyton for GBP298m; significant reductions in the cost base including manufacturing, outsourcing and removal of a layer of management; new product developments including the launch of Spirent TestCenter, which has already been adopted by over 150 customers; and the building of significant positions in new and growing technologies.

Spirent's clear strategy
The Board has in place a clear strategy to create more value for shareholders. This includes a margin improvement plan and exploitation of the substantial investment in Spirent TestCenter; further operating cost reductions of GBP7m on an annualised basis; termination of the Company's US listing and SEC registration (which currently costs some GBP3m per year); and an additional GBP50m share buy back programme.

Indeed Sherborne acknowledges that this is the right strategy for Spirent, stating in its letter to shareholders of 5 December 2006: "We (Sherborne) believe it is unlikely that the Company's position will be greatly improved by new and radical strategic initiatives".

Share price outperformance
Management's actions are beginning to deliver improving performance from Spirent's core Performance Analysis business. Since the appointment of Spirent's Chairman, John Weston, was announced in 2002, and over the last 12 months, Spirent's share price has outperformed its peer group.

Spirent has the right team
The circular points out how the director candidates proposed by Sherborne do not have the relevant skills or sector expertise to take the Company forward. Sherborne's proposed directors are experienced in speciality chemicals, visual information technology and the distribution of promotional products. This should

be contrasted with the current Spirent non-executives who include directors who have held senior positions at Ericsson, Verizon Communications and Northern Telecom Ltd and the former chief executives of BAE Systems plc and GKN plc.

Marcus Beresford, Senior Independent Director at Spirent, said:

"Spirent is in a very different situation to those companies that Sherborne has traditionally bought into, having already taken the actions to turn around the business. It is already in a strong financial position and is poised to deliver significant benefits from previously taken and ongoing management actions.

Sherborne is blatantly seeking to take control of the Board without paying a premium to all shareholders. Its proposals would also mean that the Board would not comply with important principles of good corporate governance.

The Board unanimously recommends shareholders vote against all the resolutions as it does not believe they are in the best interests of the Company and shareholders as a whole."

For further information please contact:

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About Spirent Communications plc
Spirent Communications plc is a leading communications technology company focused on delivering innovative systems and services to meet the needs of cus tomers worldwide. We are a global provider of performance analysis and service assurance solutions that enable the development and deployment of next-generation networking technologies such as broadband services, Internet telephony, 3G wireless and web applications and security testing. The Systems group develops power control systems for specialist electrical vehicles in the mobility and industrial markets. Further information about Spirent Communications plc can be found at www.spirent.com.

Spirent Communications plc Ordinary shares are traded on the London Stock Exchange (ticker: SPT) and on the New York Stock Exchange (ticker: SPM; CUSIP number: 84856M209) in the form of American Depositary Shares ("ADS"), represented by American Depositary Receipts, with one ADS representing four Ordinary shares.

This press release may contain forward-looking statements (as that term is defined in the United States Private Securities Litigation Reform Act of 1995) based on current expectations or beliefs, as well as assumptions about future events. You can sometimes, but not always, identify these statements by the use of a date in the future or such words as "will", "anticipate", "estimate", "expect", "project", "intend", "plan", "should", "may", "assume" and other similar words. By their nature, forward-looking statements are inherently predictive and speculative and involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. You should not place undue reliance on these forward-looking statements, which are not a guarantee of future performance and are subject to factors that could cause our actual results to differ materially from those expressed or implied by these statements. The Company undertakes no obligation to update any forward-looking statements contained in this press release, whether as a result of new information, future events or otherwise.

Signatures

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, thereunto duly authorized.

______MICHAEL ANSCOMBE______

(Registrant)

Date: 11 December, 2006 By ____/s/ Michael Anscombe____

(Signature)*

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Purchases of property and equipment	(80)	(135)	(26)
Purchases of short-term investments	-	(40)	(69)
Redemption of short-term investments	-	-	371
Acquisition of Fast Growth Enterprises	(1,000)	-	-
Cash acquired through purchase of Fast Growth Enterprises	442	-	-
Net cash provided by (used in) investing activities	(638)	(175)	276
Cash flows from financing activities			
Issuance of note payable	-	250	1,250
Repayment of note payable	-	(250)	-
Repayment of notes payable due to related party	(95)	-	-
Proceeds from preferred stock	-	3,684	-
Net cash (used in) provided by financing activities	(95)	3,684	1,250
Effect of exchange rate differences on cash	-	-	-

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(5,836)	7,648	(62)
Cash and cash equivalents - beginning of period	8,130	482	544
Cash and cash equivalents - end of period	$2,294	$8,130	$482
SUPPLEMENTAL DISCLOSURE OF CASH INFORMATION			
Interest paid	$11	8	-
Income taxes paid	$22	8	6
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES			
Inventories transferred to property and equipment, attributable to operating leases, net	$27	$30	$173
Conversion of notes payable to preferred stock	$-	$1,250	$-
Accrued preferred stock dividends	$(1,221)	$(429)	$-
Common shares, warrants and contingent shares issued for acquisition	$2,979	$-	$-
Fair value of assets acquired	$4,731	$-	$-
Liabilities assumed through acquisition	$(1,194)	$-	$-
Trade Payable due to related party paid on common stock	$-	$-	$469
Issuance of preferred stock in satisfaction of accrued dividend	$123	$101	$-
Conversion of preferred stock to common stock	$30	$2	$-
Common shares issued for consulting agreements	$-	$1,070	$-

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

Vasomedical, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2011, May 31, 2011 and 2010

NOTE A – DESCRIPTION OF BUSINESS, LIQUIDITY AND CHANGE IN FISCAL YEAR END

Vasomedical, Inc. was incorporated in Delaware in July 1987. Unless the context requires otherwise, all references to "we", "our", "us", "Company", "registrant", "Vasomedical" or "management" refer to Vasomedical, Inc. and its subsidiaries 1995, we have been engaged in designing, manufacturing, marketing and supporting EECP® Enhanced External Counterpulsation systems, based on our unique proprietary technology, to physicians and hospitals throughout the United States and in select international markets.

In 2010, the Company, through its wholly-owned subsidiary Vaso Diagnostics d/b/a VasoHealthcare, organized a group of medical device sales professionals and entered into the sales representation business as the exclusive representative for the sale of select General Electric Company (GE) diagnostic imaging equipment to specific market segments in the 48 contiguous states of the United States and the District of Columbia.

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

We have achieved profitability through the operations of the VasoHealthcare business. The Company will seek to achieve greater profitability through our recent accretive acquisition of the two Chinese medical device companies and by expanding our U.S. market product portfolio. In addition, the Company plans to actively pursue other accretive acquisitions in the international market and is in preliminary discussions to secure a credit facility for up to $25 million to be utilized for this purpose.

Based on our current operations through December 31, 2011, we believe internally generated funds from our Equipment and Sales Representation segments will be sufficient for the Company to continue operations through at least January 1, 2013.

On June 15, 2011, the Board of Directors approved a change of the Company's fiscal year end from May 31st to December 31st. As a result of this change, the Company is filing a Transition Report on Form 10-K for the seven-month transition period ended December 31, 2011. References to any of our fiscal years means the fiscal year ending May 31, 2011 or 2010. Financial information in these notes with respect to the seven months ended December 31, 2010 is unaudited.

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 the Company, 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.

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Use of Estimates

The preparation of 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 and the adequacy of inventory and warranty reserves. 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. In the United States, we recognize revenue from the sale of our EECP® systems in the period in which we deliver the system to the customer. Revenue from the sale of our EECP® systems 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:

- 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 delivery and acceptance occurs based on delivery and acceptance documentation received from independent shipping companies or customers;
  - 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.

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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 four years. Costs associated with the provision of service and maintenance, including salaries, benefits, travel and spare parts, and equipment, are recognized in cost of sales 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 VasoHealthcare

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.

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.

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.

During fiscal 2011, the Company’s Board of Directors granted, under the 2010 Stock Plan (see Note P), 4,440,000 restricted shares of common stock valued at $876,000 to employees and consultants. 355,000 shares valued at $72,000 vested immediately and the remainder vest over three years. During fiscal 2011, 4,116,279 shares of common stock valued at $1,325,000 were granted to outside directors and consultants, of which 250,000 shares valued at $78,000 will vest over one year. During the fiscal year ended May 31, 2010, the Company’s Board of Directors granted 666,668 shares of common stock to two officers of the Company in lieu of a portion of their calendar year 2010 salaries, which was amortized over the remainder of calendar year 2010.

During fiscal 2011, the Company's Board of Directors did not grant any non-qualified stock options. During fiscal year 2010 the Company's Board of Directors granted options for 250,000 shares of common stock to one officer and options for 200,000 shares to one director of the Company, pursuant to the 2004 Stock Option Plan. These options have an exercise price of $0.08 per share and expire five years from date of grant.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Share-based compensation expense recognized for the seven months ended December 31, 2011 and fiscal years ended May 31, 2011 and 2010 was $208,000, $446,000, and $218,000, respectively. Expense for other share-based arrangements was $370,000 and $154,000 for the seven months ended December 31, 2011 and for the year ended May 31, 2011, respectively. Unrecognized expense related to existing share-based arrangements is approximately $0.9 million at December 31, 2011 and will be recognized ratably through July 2013.

Vasomedical accounts for share-based compensation in accordance with fair value recognition provisions, under which the Company uses the Black-Scholes Merton option pricing model which requires the input of subjective assumptions. These assumptions include estimating the length of time employees will retain their stock options before exercising them ("expected term"), the estimated volatility of the Company's common stock price over the expected term and the number of options that will ultimately not complete their vesting requirements. The Company estimates the expected term and forfeitures based on the terms set forth in the option agreements and no assumption that any options will not complete their vesting period, which approximates actual historical behavior, and it estimates volatility of the Company's stock based on the Company's historical stock price performance over the past five years. Changes in the subjective assumptions could materially affect the estimate of fair value of share-based compensation; however management believes changes in certain assumptions that could be reasonably possible in the near term, would not have a material effect on the expense recognized for the seven months ended December 31, 2011.

The fair value of the Company's stock options was estimated using the following weighted-average assumptions for options granted during the year ended May 31, 2010:

Expected dividend yield	0.00%
Average risk free interest rate	2.24%
Expected life	5 years
Expected volatility	102.31%

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. They are bought and held principally for the purpose of selling them in the near-term and are classified as trading securities. Trading securities are recorded at fair value on the consolidated balance sheets in current assets, with the change in fair value during the years included in earnings.

Accounts Receivable, net

The Company's accounts receivable are due from 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 are stated at amounts due from customers net of allowances for doubtful accounts, returns, term discounts and other allowances. Accounts that remain 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.

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

(in thousands)

	December 31, 2011	May 31, 2011	May 31, 2010
Beginning Balance	$1,297	$147	$95
Provision for losses on accounts receivable	55	(1)	71
Direct write-offs, net of recoveries	-	(58)	(19)
Commission adjustments	811	1,209	-
Ending Balance	$2,163	$1,297	$147

Concentrations of Credit Risk

We market our equipment principally to hospitals and physician private practices. We perform credit evaluations of our customers' financial condition and, as a consequence, believe that our receivable credit risk exposure is limited. For the seven months ended December 31, 2011 and the years ended May 31, 2011 and 2010, no customer in our Equipment segment accounted for 10% or more of revenues or accounts receivable. In our Sales Representation segment, 100% of our revenues and accounts receivable are with GE; however, we believe this risk is acceptable based on GE'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 cash, which aggregated approximately $493,000 (including approximately $186,000 maintained in the names of officers of BIOX at December 31, 2011, which accounts are properly recorded in the books and records of the Company).

Our revenues were derived from the following geographic areas:
(in thousands)

	For the seven months ended	For the years ended	
	December 31, 2011	May 31, 2011	May 31, 2010
Domestic (United States)	$22,391	$14,414	$2,954
Non-domestic (foreign)	1,098	1,959	1,252
	$23,489	$16,373	$4,206

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.

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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 twenty 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. (See Note H)

Goodwill

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.

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 GE Healthcare 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 L)

Income Taxes

Deferred income taxes are recognized for temporary differences between financial statement and income tax bases of assets and liabilities and loss carryforwards 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 realizability. 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 realizability of the assets changed that it is “more likely than not” that all of the deferred tax assets will be realized. The “realizability” standard is subjective and is based upon our estimate of a greater than 50% probability that the deferred tax asset can be realized.

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 carryforwards, are classified according to the expected reversal date of the temporary difference.

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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, 2011, May 31, 2011 and May 31, 2010. 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, 2011, May 31, 2011 and May 31, 2010. Generally, the Company is no longer subject to income tax examinations by major domestic taxing authorities for years before 2008. 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. 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 consolidated balance sheet. For the seven months ended December 31, 2011, comprehensive income (loss) includes a loss of $108, which is 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.

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.

Valuation Techniques

The Company values investments in securities and securities sold short that are freely tradable and are listed on a national securities exchange or reported on the NASDAQ national market at their last sales price as of the last business day of the fiscal year.

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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 income (loss) per common share is based on the weighted number of common and potential dilutive common shares outstanding. The diluted calculation takes into account the shares that may be issued upon the exercise of stock options and warrants, reduced by the shares that may be repurchased with the funds received from the exercise, based on the average price during the period.

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)

	Seven months ended December 31,	Years ended May 31,	
	2011	2011	2010
Basic weighted average shares outstanding	146,549	111,978	101,776
Dilutive effect of share-based compensation and warrants	5,124	-	-
Dilutive effect of contingently issuable shares	1,984	-	-
Diluted weighted average shares outstanding	153,657	111,978	101,776

The following table represents common stock equivalents that were excluded from the computation of diluted earnings per share for the seven months ended December 31, 2011 and for the fiscal years ended May 31, 2011 and 2010, because the effect of their inclusion would be anti-dilutive.

(in thousands)

	December 31, 2011	May 31, 2011	May 31, 2010
Stock options	260	1,864	2,964
Warrants	1,500	4,286	6,969
Convertible preferred stock	-	30,545	-
Common stock grants	375	3,912	-
	2,135	40,607	9,933

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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Adoption of New Standards

Other Comprehensive Income: Presentation of Comprehensive Income

In June 2011, new guidance was issued that amends the current comprehensive income guidance. The new guidance allows the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single or continuous statement of comprehensive income or in two separate but consecutive statements. The amendments in this update do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The new guidance is to be applied retrospectively and is effective for fiscal years, and interim periods, beginning after December 15, 2011, with early adoption permitted. The Company has elected early adoption of this guidance and does not expect that it will have a material impact on the Company's consolidated financial statements.

Intangibles—Goodwill and Other: Testing Goodwill for Impairment

In September 2011, an accounting standard update regarding testing of goodwill for impairment was issued. This standard update gives companies the option to perform a qualitative assessment to first assess whether the fair value of a reporting unit is less than its carrying amount. If an entity determines it is not more likely than not that the fair value of the reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. The new guidance is to be applied prospectively effective for annual and interim goodwill impairment tests beginning after December 15, 2011, with early adoption permitted. The Company has elected early adoption of this guidance and does not expect that it will have a material impact on the Company's consolidated financial statements.

NOTE C – SEGMENT REPORTING

The Company views its business in two segments – the Equipment segment and the Sales Representation segment. The Equipment segment is engaged in designing, manufacturing, marketing and supporting EECP® enhanced external counterpulsation systems and other medical devices both domestically and internationally. The Sales Representation segment operates through the VasoHealthcare subsidiary and is engaged solely in the execution of the Company’s responsibilities under our agreement with GEHC. The Company 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. There are no intersegment revenues. Summary financial information for the segments is set forth below:

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(in thousands)

	As of or for the seven months ended December 31, 2011			
	Equipment Segment	Sales Representation Segment	Corporate	Consolidated
Revenues from external customers	$ 2,576	$ 20,913	$ -	$ 23,489
Operating income/(loss)	$ (1,603)	$ 7,417	$ (625)	$ 5,189
Total assets	$ 9,178	$ 22,877	$ 2,251	$ 34,306
Accounts and other receivables, net	$ 901	$ 19,794	$ -	$ 20,695
Deferred commission expense	$ -	$ 3,185	$ -	$ 3,185

	As of or for the year ended May 31, 2011			
	Equipment Segment	Sales Representation Segment	Corporate	Consolidated
Revenues from external customers	$ 5,260	$ 11,113	$ -	$ 16,373
Operating income/(loss)	$ (530)	$ (2,962)	$ (441)	$ (3,933)
Total assets	$ 4,504	$ 5,920	$ 8,130	$ 18,554
Accounts and other receivables, net	$ 932	$ 3,087	$ -	$ 4,019
Deferred commission expense	$ -	$ 2,723	$ -	$ 2,723

	As of or for the year ended May 31, 2010			
	Equipment Segment	Sales Representation Segment	Corporate	Consolidated
Revenues from external customers	$ 4,206	$ -	$ -	$ 4,206
Operating income/(loss)	$ (429)	$ (1,057)	$ (494)	$ (1,980)
Total assets	$ 3,338	$ 44	$ 481	$ 3,863
Accounts and other receivables, net	$ 474	$ -	$ -	$ 474
Deferred commission expense	$ -	$ -	$ -	$ -

For the seven months ended December 31, 2011 and the year ended May 31, 2011, GE Healthcare accounted for 89% and 68% of revenue, respectively. Also, GE Healthcare accounted for $19.7 million, or 95%, and $3.0 million, or 74%, of accounts and other receivables at December 31, 2011 and May 31, 2011, respectively.

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 and liabilities measured at fair value as of December 31, 2011:

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(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, 2011
Assets				
Cash equivalents invested in money market funds (included in cash and cash equivalents)	$1,313	$-	$ -	$1,313
Investment in certificates of deposit (included in short-term investments)	110			110
	$1,423	$-	$ -	$1,423

The following table presents information about the Company’s assets and liabilities measured at fair value as of May 31, 2011:

(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, 2011
Assets				
Cash equivalents invested in money market funds (included in cash and cash equivalents)	$7,030	$-	$ -	$7,030
Investment in certificates of deposit (included in short-term investments)	110	-	-	110
	$7,140	$-	$ -	$7,140

The following table presents information about the Company’s assets and liabilities measured at fair value as of May 31, 2010:

(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, 2010

Assets				
Cash equivalents invested in money market funds (included in cash and cash equivalents)	$21	$-	$ -	$21
Investment in certificates of deposit (included in short-term investments)	69	-	-	69
	$90	$-	$ -	$90

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

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NOTE E – ACCOUNTS AND OTHER RECEIVABLES

The following table presents information regarding the Company's accounts and other receivables as of December 31, 2011; May 31, 2011 and May 31, 2010:

(in thousands)

	December 31, 2011	May 31, 2011	May 31, 2010
Trade receivables	$22,737	$5,195	$588
Due from employees	121	121	33
Allowance for doubtful accounts and commission adjustments	(2,163)	(1,297)	(147)
	$20,695	$4,019	$474

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

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

NOTE F – INVENTORIES, NET

Inventories, net of reserves consisted of the following:

(in thousands)

	December 31, 2011	May 31, 2011	May 31, 2010
Raw materials	$842	$514	$599
Work in process	528	485	596
Finished goods	1,051	787	869
	$2,421	$1,786	$2,064

At December 31, 2011, May 31, 2011 and May 31, 2010, the Company maintained reserves for excess and obsolete inventories of $606,000, $409,000 and $359,000, respectively.

NOTE G– BUSINESS COMBINATION

On August 19, 2011, the Company, through its newly formed subsidiary, Vasomedical Global, signed an agreement to purchase Life Enhancement Technology Limited and Biox Instruments Co., Ltd., both of which are based in the People's Republic of China.

On September 2, 2011, Vasomedical Global successfully completed the purchase of all the outstanding capital stock of privately-held Fast Growth Enterprises Limited ("FGE"), a British Virgin Islands company that owns subsidiaries which own and control Life Enhancement Technology Limited (“LET”) and Biox Instruments Co. Ltd. (“Biox”), respectively, as per the stock purchase agreement signed on August 19, 2011. The consideration of this acquisition includes a cash payment of $1 million as well as the issuance of 5 million restricted shares of the Company’s common stock, up to 2.4 million shares of common stock contingently issuable upon the achievement of certain operating performance targets, and warrants covering 1.5 million shares of common stock.

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LET, based in Foshan, Guangdong, China, has been Vasomedical’s supplier for its proprietary Enhanced External Counterpulsation (EECP®) systems, including certain Lumenair systems and all AngioNew® systems. Biox, a developer and manufacturer of ambulatory monitoring devices in China, is located in Wuxi, Jiangsu, China, and has been Vasomedical’s partner on the BIOX series ECG Holter recorder and analysis software as well as ambulatory blood pressure monitoring systems. Vasomedical has obtained FDA clearance to market these products in the United States. The acquisition of LET provides Vasomedical with consolidated technical and manufacturing capability in its EECP business which should significantly increase gross margins and enable the Company to meet anticipated increasing demand for its EECP systems. Management believes the acquisition of Biox greatly enhances Vasomedical's distribution network, technology and product portfolio, and with combined market and sales efforts of the two companies, should help improve performance and profitability of Vasomedical's equipment segment.

The operating results of FGE from September 2, 2011 to December 31, 2011 are included in the accompanying Consolidated Statement of Operations and Comprehensive Income (Loss) and Cash Flows for the seven months ended December 31, 2011. The accompanying Consolidated Balance Sheet as of December 31, 2011 reflects the acquisition of FGE, effective September 2, 2011. The acquisition date fair value of the total consideration transferred was $3.979 million, which consisted of the following:

(in thousands)

Cash	$1,000
Vasomedical, Inc. common stock	2,100
Vasomedical, Inc. warrants to purchase common stock	304
Contingent issuance of Vasomedical, Inc. common stock	575
Total purchase price	$3,979

The fair value of the common shares issued and the contingently issuable common shares was based on the closing price of the shares on September 2, 2011, as quoted on the Nasdaq OTC pink sheets, which was $0.42 (“closing price”). The fair value of the warrants issued was computed using a Black Scholes Merton option pricing model, which utilized the following assumptions: expected term of two years which is the contractual term of the warrants; risk-free rate of 0.20%; 0% expected dividend yield; 100.67% expected volatility; the closing price; and an exercise price of $0.50. The fair value of the contingent consideration recognized on the acquisition date was estimated based on a probability model.

In accordance with Accounting Standards Codification ("ASC") 805, Business Combinations ("ASC 805"), the total purchase consideration is allocated to the net tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values as of September 2, 2011 (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 assets acquired and liabilities assumed at the acquisition date:

(in thousands)

Cash and cash equivalents	$442
Accounts receivable and other current assets	283
Inventories	476
Property and equipment	32
Goodwill	3,939

Accounts payable and other current liabilites	(1,193)
Net assets acquired	$3,979

The goodwill is attributable to the synergies expected to arise after the Company’s acquisition of FGE as well as to FGE's projected growth and profitability. The goodwill is not expected to be deductible for tax purposes.

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During the seven month period ended December 31, 2011, the Company expensed $122,000 of acquisition-related costs. These costs are included in the line item Selling, General & Administrative costs in the accompanying Consolidated Statement of Operations and Comprehensive Income (Loss) and are comprised of accounting and legal fees.

After elimination of intercompany transactions, the amounts of revenue and net income of FGE included in the Company's Consolidated Statement of Operations and Comprehensive Income (Loss) for the seven ended December 31, 2011 was $413,000 and $35,000, respectively. Earnings per share was less than $0.01. Prior to elimination of the intercompany transactions, the amounts of revenue and net income recognized by FGE from the acquisition date to December 31, 2011 was $852,000 and $350,000, respectively.

The following unaudited supplemental pro forma information presents the financial results as if the acquisition of FGE had occurred June 1, 2009 (amounts in thousands, except per share amounts):

(in thousands)

	Seven Months Ended December 31, 2011	Year ended May 31, 2011	2010
Revenue	$ 23,600	$ 17,347	$ 5,129
Net income (loss)	5,046	(3,405)	(1.499)
Basic earnings (loss) per share	0.03	(0.03)	(0.01)
Diluted earnings (loss) per share	0.02	(0.03)	(0.01)

An adjustment was made to the unaudited pro forma financial information to reflect the acquisition-related costs in the year ended May 31, 2010.

NOTE H – PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows:
(in thousands)

	December 31, 2011	May 31, 2011	May 31, 2010
Office, laboratory and other equipment	$1,205	$1,005	$943
EECP® systems under operating leases			
or under loan for clinical trials	795	800	823
Furniture and fixtures	203	194	149
	2,203	1,999	1,915
Less: accumulated depreciation	(1,774)	(1,633)	(1,612)

Property and equipment, net	$429	$366	$303

Depreciation expense amounted to approximately $81,000, $102,000, and $77,000 for the seven months ended December 31, 2011 and for the years ended May 31, 2011 and 2010, respectively.

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NOTE I – GOODWILL AND OTHER INTANGIBLES

The change in the carrying amount of goodwill was as follows:

(in thousands)

	Carrying Amount
Balance at June 1, 2011	$-
Acquisition of FGE (Note G)	3,939
Balance at December 31, 2011	$3,939

The Company owns eleven US patents including eight utility and three design patents that expire at various times between now and 2023. 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 costs are being amortized using the straight-line method over the related 10-year lives. 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.

The Company's other intangible assets consist of capitalized patent costs, as set forth in the following:

(in thousands)

	December 31, 2011	May 31, 2011	May 31, 2010
Patent Costs			
Costs	469	469	469
Accumulated amortization	(413)	(393)	(351)
	$56	$76	$118

The other intangible assets are included in other assets on the Company's consolidated balance sheets.

Amortization expense amounted to $20,000, $43,000, and $47,000 for the seven months ended December 31, 2011 and for the years ended May 31, 2011 and 2010, respectively.

NOTE J – DEFERRED REVENUE

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

	For the seven months ended December 31, 2011	For the years ended May 31, 2011	2010
Deferred revenue at the beginning of the period	$11,922	$1,027	$1,288
Additions:			
Deferred extended service contracts	691	1,281	1,047
Deferred in-service and training	18	33	22

Deferred service arrangements	29	98	71
Deferred commission revenues	23,121	19,558	-
Recognized as revenue:			
Deferred extended service contracts	(639)	(1,239)	(1,254)
Deferred in-service and training	(25)	(23)	(30)
Deferred service arrangements	(48)	(61)	(117)
Deferred commission revenues	(19,842)	(8,752)	-
Deferred revenue at end of period	15,227	11,922	1,027
Less: current portion	9,484	10,918	854
Long-term deferred revenue at end of period	$5,743	$1,004	$173

NOTE K – SALE-LEASEBACK

In August 2007, the Company sold its warehouse and corporate facility for $1,400,000. Under the agreement, the Company is leasing back the property from the purchaser over a period of five years. The Company is accounting for the leaseback as an operating lease. The gain of $266,000 realized in this transaction was deferred and is being amortized to income ratably over the term of the lease. The unamortized deferred gain of $31,000, $62,000 and $115,000 as of December 31, 2011, May 31, 2011 and 2010, respectively, is shown as deferred gain on sale-leaseback of building in the Company's Consolidated Balance Sheets. The short-term portion of $31,000 as of December 31, 2011, and $53,000 as of May 31, 2011 and 2010, is shown in current liabilities and the long-term portion is in other long-term liabilities in the accompanying Consolidated Balance Sheets. The amount amortized in the seven months ended December 31, 2011 was $31,000, and the amount amortized in each of the fiscal years ended May 31, 2011 and 2010 was $53,000.

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NOTE L – WARRANTY LIABILITY

The changes in the Company's product warranty liability are as follows:
(in thousands)

	For the seven months ended December 31, 2011	Years ended May 31, 2011	2010
Warranty liability at the beginning of the period	$30	$27	$23
Expense for new warranties issued	22	75	48
Warranty claims	(32)	(72)	(44)
Warranty liability at the end of the period	20	30	27
Long-term warranty liability at the end of the period	$-	$-	$-

Warranty liability is included in accrued expenses and other liabilities on the Company's consolidated balance sheets.

NOTE M – NOTES PAYABLE

At May 31, 2010, the Company had $1,250,000 in notes payable to finance the start-up costs related to VasoHealthcare. Certain of the Company's beneficial owners executed promissory notes with the Company on various dates during April and May of 2010 carrying an interest rate of 5% per annum and maturing on various dates in July 2010. These promissory notes were settled in June 2010 through the issuance of Series E preferred stock (see Note O).

NOTE N – RELATED-PARTY TRANSACTIONS

On June 21, 2007, we entered into a Securities Purchase Agreement with Kerns Manufacturing Corp. ("Kerns"). Concurrently with our entry into the Securities Purchase Agreement, we also entered into a Distribution Agreement and a Supplier Agreement with Living Data Technology Corporation ("Living Data"), an affiliate of Kerns. Pursuant to the Distribution Agreement, as amended, we became the exclusive worldwide distributor of the AngioNew EECP® systems manufactured through Living Data. The Distribution Agreement had an initial term extending through May 31, 2012. Effective September 2, 2011 the Company acquired Life Enhancement Technology (LET) (see Note G), the manufacturer of the AngioNew EECP® system. Consequently, the Distribution Agreement is no longer effective, and the Company wrote-off the remaining unamortized balance of Deferred Distributor Costs during the seven months ended December 31, 2011.

Pursuant to the Supplier Agreement, Living Data became our exclusive supplier of the external counterpulsation therapy systems that we market under the registered trademark EECP®. On February 28, 2010, the Supplier Agreement was terminated and, in connection with the termination, the Company purchased Living Data's remaining inventory at cost ($469,000), which was paid in 7,824,167 shares of common stock valued at the closing price on the termination date. Prior to termination, the Company purchased in fiscal 2010 additional EECP® therapy systems for $40,000 from Living Data. Payment terms on certain purchases prior to 2010, plus $3,000 in commissions for sales of certain BIOX products, leave a balance of $0, $266,000, and $240,000 in Trade Payable due to Related Party on the accompanying Consolidated Balance Sheets as of December 31, 2011, May 31, 2011 and May 31, 2010, respectively. The payable balance due Living Data included interest charges of $24,000 at May 31, 2011 and was satisfied through a cash payment in August 2011.

On February 28, 2011, David Lieberman and Edgar Rios were appointed by the Board of Directors as directors of the Company. Mr. Lieberman, a practicing attorney in the State of New York, was appointed to serve as the Vice Chairman of the Board. He is currently a senior partner at the law firm of Beckman, Lieberman & Barandes, LLP, which firm performs certain legal services for the Company. Fees of approximately $166,000 were billed by the firm for the seven months ended December 31, 2011, at which date no amounts were outstanding.

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Mr. Rios currently is President of Edgary Consultants, LLC, and was appointed a director in conjunction with the Company's consulting agreement with Edgary Consultants, LLC. The consulting agreement (the "Agreement") between the Company and Edgary Consultants, LLC ("Consultant") commenced on March 1, 2011 and runs for a two year term.. The Agreement provides for the engagement of Consultant to assist the Company in seeking broader reimbursement coverage of EECP® therapy. More specifically, Consultant will be assisting the Company in the following areas:

1. Engaging the adoption of EECP® therapy as a first line option for FDA cleared indications as it relates to CCS Class III/IV angina with a major commercial healthcare third-party payer.
2. Engaging a major commercial healthcare payer to formally collaborate and co-sponsor a study with Vasomedical for the efficacy, efficiency and/or cost effectiveness of the EECP® therapy for NYHA Class II/III heart failure.
3. Engaging final approval from the Centers for Medicare and Medicaid Services ("CMS") of EECP® therapy as a first line treatment for CCS Class III/IV angina.
4. Engaging final approval from CMS to extend coverage and provide for the reimbursement of EECP® therapy for CCS Class II angina; and
5. Engaging final approval from CMS to extend coverage and provide for the reimbursement of EECP® therapy for NYHA Class II/III heart failure.

In consideration for the services to be provided by Consultant under the Agreement, the Company has agreed to issue to Consultant or its designees, approximately 10% of the outstanding capital stock of the Company, of which the substantial portion (in excess of 82%) is performance based as referenced above. In conjunction with the Agreement, 3,000,000 shares of restricted common stock valued at $1,020,000 were issued in March 2011. In connection with the Agreement, Mr. Lieberman received 600,000 of these restricted shares. The Company has recorded the fair value of the shares issued to Consultant as a prepaid expense and is amortizing the cost ratably over the two year agreement. The unamortized value is reported as Deferred Related Party Consulting Expense in our accompanying Consolidated Balance Sheets as of December 31, 2011 and May 31, 2011.

During the seven months ended December 31, 2011, a director performed consulting services for the Company aggregating approximately $95,000, and the Company accrued dividends of $15,000 on Series E Preferred Stock (see Note O) to directors, management, and other related parties of the Company.

During fiscal 2011, the Company sold, or issued as dividends, 246,870 shares of Series E Preferred Stock (see Note O) to directors, management, and other related parties of the Company. In addition, two directors performed consulting services for the company during fiscal 2011, aggregating approximately $57,000.

Through the Company's acquisition of FGE in September 2011, it assumed the liability for $288,000 in unsecured notes payable to the President of LET and his spouse, of which $95,000 was repaid in December 2011, and $190,000, bearing interest at 6% per annum, was paid in full in March 2012. In addition, $10,000 in pre-acquisition earnings were distributed to current BIOX management and during the seven months ended December 31, 2011. The Company also recorded $196,000 in loans and advances made to officers of FGE during the seven months ended December 31, 2011. These loans are short term and do not bear interest.

NOTE O – STOCKHOLDERS' EQUITY AND WARRANTS

Common stock and warrants

See Note N for discussion of common stock issued in fiscal 2011 and 2010 in connection with related party agreements. The Company also issued 1,151,492, 1,861,279, and 2,603,960 shares of common stock to directors, officers, employees, and/or consultants during the seven months ended December 31, 2011 and for the fiscal years 2011 and 2010, respectively.

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On July 19, 2005, we granted warrants for the purchase of 2,254,538 shares of common stock to investors and consultants. The warrants, with an exercise price of $0.69 per share for a term of five years, expired unexercised on July 19, 2010.

On June 21, 2007, a five-year warrant to purchase 4,285,714 shares of our common stock at an initial exercise price of $0.08 per share was issued to Kerns under the Securities Purchase Agreement. Additionally, we granted warrants for the purchase of 428,571 shares of common stock to a consultant in conjunction with the Kerns Securities Purchase Agreement. The initial exercise price was $0.07 per share for a term of five years, and a cashless exercise was made in April 2011 resulting in the issuance of 383,790 shares of common stock.

In September 2011, the Company issued 5,000,000 shares of restricted common stock and a two year common stock purchase warrant for 1,500,000 shares at an exercise price of $0.50 per share as partial consideration for the acquisition of FGE (see Note G). In addition, up to 2,400,000 shares of common stock are contingently issuable should FGE attain certain operating targets for the twelve months ending December 31, 2011. The Company is completing its evaluation of FGE's calendar year 2011 results and believes it is likely that the targets have been met.

The aggregate value of the aforementioned noncash consideration relative to the FGE acquisition was $2,979,000 (see Note G for valuation assumptions and methodology).

Warrant activity for the seven months ended December 31, 2011 and for the years ended May 31, 2011 and 2010 is summarized as follows:

	Employees	Consultants	Total	Weighted Average Price
Balance at May 31, 2009	-	6,968,823	6,968,823	$0.27
Warrants expired	-	-	-	
Warrants issued	-	-	-	
Balance at May 31, 2010	-	6,968,823	6,968,823	$0.27
Warrants expired	-	(2,254,538)	(2,254,538)	$0.69
Warrants issued	-	-	-	
Warrants exercised		(428,571)	(428,571)	$0.07
Number of shares exercisable at May 31, 2011	-	4,285,714	4,285,714	$0.08
Warrants expired	-	-	-	
Warrants issued	-	1,500,000	1,500,000	$0.50
Warrants exercised	-	-	-	
Number of shares exercisable at December 31, 2011	-	5,785,714	5,785,714	$0.19

Preferred stock

At December 31, 2011, May 31, 2011 and 2010, the Company had 1,000,000 shares of preferred stock authorized. During the year ended May 31, 2011 the Company issued an aggregate 314,649 shares of its Series E preferred stock. 78,123 of the shares were issued to cover the cancellation of the notes payable outstanding at May 31, 2010 (see Note M). There were 299,024 shares of Series E preferred stock issued and outstanding at May 31, 2011 and no shares issued and outstanding at December 31, 2011 and May 31, 2010.

On June 24, 2010, the Company filed a Certificate of Designations of Preferences and Rights of Series E Convertible Preferred Stock ("Certificate of Designations"), as authorized by the Board of Directors, designating 350,000 shares of its 1,000,000 shares of preferred stock as Series E Convertible Preferred Stock ("Series E Preferred"). The conversion rights of the Series E Preferred are that each share will be convertible at any time on or after January 1, 2011, at the holder's option into 100 shares of common stock (an exercise price of $.16 per share of common stock, the "Conversion Price"), subject to anti-dilution adjustment as set forth below. Each share of outstanding Series E Preferred Stock shall automatically be converted into shares of common stock on or after July 1, 2011, at the then effective applicable conversion ratio, if, at any time following the Issuance Date, the price of the common stock for any 30 consecutive trading days equals or exceeds three times the Conversion Price and the average daily trading volume for the Company's common stock for the 30 consecutive trading days exceeds 250,000 shares.

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Pursuant to its conversion terms, the Series E Preferred was deemed automatically converted to common stock effective July 1, 2011. As of December 31, 2011, 29,956,100 shares of common stock had been issued for 299,561 shares of Series E Preferred, with 712,350 shares of common stock yet to be issued.

For the seven months ended December 31, 2011 and the year ended May 31, 2011, the Company recorded dividends totaling $1,221,000 and $429,000, respectively. Included in these amounts is the recognition of the value of the embedded beneficial conversion feature of the Series E Preferred, which reflects the difference between the conversion price and the market price at time of investment. The amounts included in the dividends reported attributable to this beneficial conversion feature are $1,201,000 and $225,000 for the seven months ended December 31, 2011 and the year ended May 31, 2011, respectively. These are noncash dividends requiring no payment and ceased on conversion of the Series E Preferred to common stock.

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. Our Chinese subsidiaries are also required to set aside at least 10% of its after-tax profit based on PRC accounting standards each year to their general reserves until the accumulative amount of such reserves reaches 50% of their registered capital. 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.

NOTE P - 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.

In May 2006, the Board of Directors accelerated the vesting period for all unvested options to May 31, 2006.

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

In fiscal 2010, options to purchase 30,000 shares of common stock under the 1999 Plan at an exercise price of $1.69 were retired or cancelled.

In fiscal 2011, options to purchase 1,100,000 shares of common stock under the 1999 Plan at an exercise price ranging from $0.09 to $3.88 were retired or cancelled.

In the seven months ended December 31, 2011, options to purchase 54,000 shares of common stock under the 1999 Plan at an exercise price of $3.96 were retired or cancelled.

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.

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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 may be granted under the 2004 Plan expires 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. The term for which shares may be issued under the 2004 Plan expires July 12, 2014.

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.

In May 2006, the Board of Directors accelerated the vesting period for all unvested options to May 31, 2006.

In fiscal 2010, the Company's Board of Directors granted non-qualified stock options under the 2004 Plan to one director to purchase an aggregate of 200,000 shares of common stock, at an exercise price of $0.08 per share (which represented the fair market value of the underlying common stock at the time of the respective grants) and the Company's Board of Directors granted non-qualified stock options under the 2004 Plan to one officer to purchase an aggregate of 250,000 shares of common stock, at an exercise price of $0.08 per share (which represented the fair market value of the underlying common stock at the time of the respective grants). These options expire five years from the date of grant. In fiscal 2010, options to purchase 449,463 shares of common stock under the 2004 Plan at exercise prices ranging from $0.57 to $3.96 were retired or cancelled.

In fiscal 2011 there was no activity under the 2004 plan.

In the seven months ended December 31, 2011, there was no activity under the 2004 plan.

At December 31, 2011, there were 785,224 shares available for future grants under the 2004 Plan.

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.

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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.

As of December 31, 2011, 3,790,000 restricted shares of common stock were granted under the 2010 Plan to non-officer employees and consultants of the Company. As of December 31, 2011, 485,000 shares have been forfeited and 198,006 were withheld for withholding taxes. In September 2010, 650,000 restricted shares of common stock were granted under the 2010 Plan to officers of the Company. In September 2011, 475,000 restricted shares of common stock were granted under the 2010 Plan to an officer, of which 100,000 vested immediately with the remainder vesting over a three year period. No options were issued under the 2010 Plan during the seven months ended December 31, 2011 and fiscal 2011 or 2010.

Stock option and stock grant activity under all the plans for the seven months ended December 31, 2011 and for the years ended May 31, 2010 and 2011 is summarized as follows:

		Outstanding Options		
	Shares Available for Grant	Number of Shares	Range of Exercise Price per Share	Weighted Average Exercise Price
Balance at June 1, 2009	3,266,125	2,993,239	0.09 - $$3.96	$1.34
Options granted	(450,000)	450,000	$0.08	$0.08
Options canceled	479,463	(479,463)	0.57 - $$3.96	$1.24
Expiration of 1999 Stock option plan	(2,510,364)			
Balance at May 31, 2010	785,224	2,963,776	0.08 - $$3.96	$0.57
Options granted	-	-		
Options canceled	-	(1,100,000)	0.09 - $$3.88	$0.94
Available under 2010 Plan	920,000			
Balance at May 31, 2011	1,705,224	1,863,776	0.08 - $$3.96	$0.34
Options granted	-	-		
Options canceled	-	(54,000)	$3.96	$3.96
Granted under 2010 Plan	(475,000)	-		
Cancelled under 2010 Plan	321,008	-		
Balance at December 31, 2011	1,551,232	1,809,776	$	$0.23

0.08 -
$1.11

The following table summarizes information about stock options outstanding and exercisable at December 31, 2011:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at December 31, 2011	Weighted Average Remaining Contractual Life (yrs.)	Weighted Average Exercise Price	Number Exercisable at December 31, 2011	Weighted Average Exercise Price
0.08 - $$0.58	1,689,776	4.3	$0.18	1,689,776	$0.18
0.71 - $$1.11	120,000	2.2	$1.04	120,000	$1.04
	1,809,776	4.2	$0.23	1,809,776	$0.23

There were 86,954,632 remaining authorized shares of common stock after reserves for all stock option plans and stock warrants.

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NOTE Q - INCOME TAXES

As of December 31, 2011, the recorded deferred tax assets were $19,628,000, reflecting an increase of $132,000 during the seven months ended December 31, 2011, which was offset by a valuation allowance of the same amount. The Company also recorded a deferred tax liability of $112,000 as of December 31, 2011, 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, 2011	May 31, 2011	May 31, 2010
Net operating loss carryforwards	$18,030	$19,301	$20,784
Depreciation and amortization	59	-	(35)
Deferred rent	3	5	6
Deferred gain on sale of building	12	21	39
Allowance for doubtful accounts	54	30	50
Reserve for obsolete inventory	165	139	122
Tax credits	358	-	-
Expense accruals	545	-	-
Deferred revenue	402	-	-
Total gross deferred taxes	19,628	19,496	20,966
Valuation allowance	(19,628)	(19,496)	(20,966)
Net deferred tax assets	$-	$-	$-

At December 31, 2011, the Company had net operating loss carryforwards for federal and state income tax purposes of approximately $45.1 million expiring at various dates from 2012 through 2031. In the seven months ended December 31, 2011 and for the fiscal years 2011 and 2010, approximately $0.5 million, $5.4 million and $2.5 million, respectively, of net operating loss carryforwards expired. Future expirations of net operating loss carryforwards are approximately as follows:

(in thousands)

Calendar Year	Amount
2012	$ 6,100
2013	4,400
2014	-
2015	-
2016	-
Thereafter	34,600
Total	$ 45,100

Income tax expense for the seven months ended December 31, 2011 was $276,000 and consisted mainly of Federal Alternative Minimum Tax and income tax in states with income in excess of applicable net operating loss carry forwards. Income tax expense for the year ended May 31, 2011 consists primarily of accruals for state taxes and adjustments for amounts paid or accrued in excess of actual income tax liabilities. The components of income tax benefit for the year ended May 31, 2010 include federal research and development credits of approximately $17,400. The remaining income tax benefit for the year ended May 31, 2010 consist primarily of federal and state refunds and adjustments for amounts paid or accrued in excess of actual income tax liabilities.

The Company has recorded a provision of $500,000 for the potential liability that may arise from the business of FGE prior to its acquisition by the Company, which is included in accrued expenses and other liabilities on the Company's consolidated balance sheet as of December 31, 2011. Under the acquisition agreement of FGE by Vasomedical, the former shareholders of FGE have fully indemnified Vasomedical against any undisclosed liabilities and the Company believes that any liability that may arise should be recoverable from these former shareholders.

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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.

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

	For the seven months ended December 31, 2011	For the years ended May 31,	
		2011	2010
	%	%	%
Federal statutory rate	34.00	(34.00)	(34.00)
State income taxes	6.00	(6.00)	(6.00)
Change in valuation allowance relating to operations	-	40.00	40.00
Utilizations of net operating loss carryforward	(40.00)	-	-
Foreign taxes	1.17	-	-
Alternative minimum tax	2.10	-	-
Other	1.84	0.17	(1.90)
	5.12	0.17	(1.90)

NOTE R - COMMITMENTS AND CONTINGENCIES

Sales representation agreement

The GEHC Agreement is for an initial term of three years commencing July 1, 2010, subject to extension and also subject to earlier termination under certain circumstances. 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. VasoHealthcare also leases facilities in Greensboro, North Carolina pursuant to a lease which expires in May 2013. FGE leases facilities in Wuxi, China, pursuant to leases expiring in December 2013 and February 2015, and a facility in Foshan, China, pursuant to a lease that expires in April 2013.

Our Westbury lease expires in August 2012 at which time we will either extend the lease or seek nearby facilities. We believe that our current facility is adequate for foreseeable current and future needs and that there will be no difficulty in acquiring comparable facilities if we do not extend our current lease.

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.

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

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For the years ended December 31, (in thousands)	Vehicles	Facilities	Total
2012	$265	$226	$491
2013	251	68	319
2014	129	3	132
2015	-	1	1
Total	$645	$298	$943

Employment Agreement

On March 21, 2011, the Company entered into an Employment Agreement with its President and Chief Executive Officer, for a three-year term ending on March 14, 2014 (the “Employment Agreement”). The Employment Agreement provides for annual compensation of $200,000, eligibility for annual bonuses and long-term incentive awards, 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.

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 15% of their compensation. In the seven months ended December 31, 2011 and for fiscal years 2011 and 2010, the Company made discretionary contributions of approximately $25,000, $27,000 and $3,000, respectively, to match a percentage of employee contributions.

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NOTE T - TRANSITION PERIOD COMPARATIVE DATA (UNAUDITED)

The following table presents certain financial information for the seven months ended December 31, 2011 and 2010.

(in thousands except per share data)

	For the seven months ended December 31, 2011	2010 (unaudited)
Statement of Operations Data:		
Total revenues	$23,489	$8,741
Gross profit	16,756	5,820
Operating income (loss)	5,189	(2,445)
Total other income, net	199	40
Income (loss) before income taxes	5,388	(2,405)
Net income (loss)	5,112	(2,413)
Preferred stock dividends	(1,221)	(191)
Net income (loss) applicable to common stockholders	3,891	(2,604)
Comprehensive income (loss)	$3,891	$(2,604)
Earnings (loss) per common share		
- basic	$0.03	$(0.02)
- diluted	$0.03	$(0.02)
Weighted average common shares outstanding		
- basic	146,549	110,833
- diluted	153,657	110,833
Statements of Cash Flows Data:		
Cash used in operations	$(5,179)	$(1,032)
Net cash provided by (used in) investing activities	(638)	(132)
Net cash provided by (used in) financing activities	(95)	3,783
Effect of exchange rate differences on cash	1	-
Increase (decrease) in cash and cash equivalents	$(5,911)	$2,619

NOTE U – SUBSEQUENT EVENTS

Exercise of Warrant

In March 2012, Kerns Manufacturing Corp. exercised its warrant to purchase 4,285,714 shares of common stock at $0.08 per share.

Employment Agreement of President and Chief Executive Officer

Pursuant to the terms of his employment agreement with the Company, at the recommendation of the Compensation Committee, the Executive Committee of the Company approved an increase in his annual salary to $275,000, awarded him a $50,000 bonus, and awarded him 500,000 restricted shares of common stock, of which one-half vests immediately and the remainder in one year.