FOCUS AND VALIDATION

Vasomedical Inc. EECP®

2003 Annual Report

Documented results supported by science

VASOMEDICAL

The Company is dedicated to providing superior medical products and services that address unmet clinical needs in the management of chronic cardiovascular diseases and to helping thousands of patients and their families each year return to active and productive lives.

About the Company

Vasomedical is the leading developer and manufacturer of EECP® external counterpulsation systems for the treatment of symptomatic coronary artery disease and congestive heart failure. EECP is a clinically proven, noninvasive therapy that utilizes pneumatic cuffs to compress the lower extremities in time with a patient's cardiac cycle. The therapy serves to increase circulation in areas of the heart with less than adequate blood supply and may restore systemic vascular function. EECP is currently indicated for use in patients with stable or unstable angina, acute myocardial infarction, cardiogenic shock and congestive heart failure.

DEAR FELLOW SHAREHOLDERS

Fiscal year 2003 was a time of critical and beneficial transition for Vasomedical. Key changes in senior management brought fresh perspectives and extensive experience that continue to strengthen the Company and its operations. Board member and industry veteran Photios T. (Fred) Paulson was appointed Chief Executive Officer of the Company in September 2002. Under his experienced leadership, the Company recovered from significant financial setbacks including the write-off of a number of sales-type leases. I joined Vasomedical in October 2002 as President and Chief Operating Officer to work with Fred on streamlining the Company's sales, marketing and operating structure. I succeeded him as Chief Executive Officer in June 2003. Fred continues as an advisor to the Company and retains his seat on the Board of Directors. Thanks to Fred's contributions and the hard work of employees at every level, Vasomedical emerged from this challenging year a stronger company.

In addition, Thomas W. Fry recently joined the Company's management team as Chief Financial Officer, bringing over 30 years experience in the healthcare industry to the position. We believe Tom's expertise will be a great asset to Vasomedical as we continue to execute our business strategies aimed at growth and increased shareholder value. We also hired Wayne F. Stewart, a seasoned executive with over 20 years of medical sales experience, as Vice President of Domestic Sales. CJ McGroarty has been appointed to the newly created position of Vice President of Eastern Region Sales, leveraging his field selling skills.

Over the past year, management has re-focused the Company's priorities on key initiatives that are laying a strong foundation for future growth. New awareness programs directed at the medical community intended to broaden the core angina market and initiatives in clinical research, namely the PEECH™ (Prospective Evaluation of EECP in Congestive Heart Failure) trial, contribute to our products' value worldwide.

Over the past year, management has re-focused the Company's priorities on key initiatives that are laying a strong foundation for future growth.

I am optimistic about long-term prospects for Vasomedical as we stand at a pivotal point in the Company's history. While total revenues decreased over the previous year, expenditures were less than planned and the loss recorded for the year was minimized. The shortfall in revenue was due primarily to softness in the domestic market. Additional losses resulted from the failure of a major customer, write-offs related to certain international distributors and a number of other non-recurring charges. The Company's cash position, however, has improved steadily from $2.5 million at the end of the first quarter to $5.2 million at the end of the fiscal year. This increase in cash provides funding for investments in marketing, product development and other key areas for future growth.

The focal point of the Company's marketing strategy continues to be the promotion of EECP® therapy within its primary market, the cardiology community. EECP is the only clinically validated external counterpulsation system on the market, a key distinction that separates our products from our competitors' products. This fall, Vasomedical will launch a national advertising campaign in a number of leading medical journals. This initiative will complement an ongoing direct mail campaign designed to reinforce the value of the Vasomedical brand with cardiologists. By showcasing the views of thought leaders and luminaries of EECP therapy, this peer-to-peer campaign reflects the successful experiences of our customers and emphasizes the unmatched contributions of our products and services.

Vasomedical remains dedicated to supporting the patient recruitment efforts of EECP therapy providers. The Company piloted a patient-focused television commercial that aired in the cable market during the third quarter, and continues to work with providers independently in the development of patient recruitment programs.

Vasomedical continues to use major domestic, regional and international forums to reach the cardiology community, in particular through the presentation of clinical data. In fiscal 2003, the Company participated in four major scientific conferences and numerous smaller meetings. An unprecedented number of presentations on EECP therapy were made at the 52nd Annual Scientific Session of the American College of Cardiology this past March. Nine featured presentations, including an official symposium and a "Meet the Experts" session, were attended by hundreds of cardiologists. Data from these presentations continue to support the use of EECP therapy among patients with few treatment options for their coronary artery disease.

In fiscal 2004 to date, nine papers on EECP were submitted to prominent meetings and associations such as the European Society of Cardiology, Transcatheter Cardiovascular Therapeutics, Heart Failure Society of America and the American Heart Association, among others. Vasomedical and EECP therapy will continue to have a significant presence at these conferences.

EECP therapy's role in the disease management armamentarium continues to emerge as a major topic in discussions on treatment options for cardiovascular disease patients. EECP therapy was the subject of several important articles published in recent months, indicating a higher level of acceptance of the therapy. Of significant

importance were two key papers from the Mayo Clinic published in the May and June editions of the Journal of the American College of Cardiology. Data presented in these papers support the notion that endothelial function may play a role in how EECP therapy works and provide a plausible overview of the mechanisms of action.

The 35 percent increase in Medicare reimbursement rates for EECP therapy ... implemented earlier this year by the Centers for Medicare and Medicaid Services (CMS), makes the therapy even more economically viable for physicians and their patients.

Reimbursement is crucial to the success of our business, and the Company continues to dedicate resources to broadening current, favorable coverage policies to encompass congestive heart failure, and securing reimbursement policies from new payers.

Medicare covers approximately two-thirds of EECP patients. The 35 percent increase in Medicare reimbursement rates for EECP therapy for treating angina including angina equivalent symptoms, implemented earlier this year by the Centers for Medicare and Medicaid Services (CMS), makes the therapy even more economically viable for physicians and their patients. The national average payment rate for EECP has increased 60 percent over the past three years.

Data from the PEECH trial, a large, randomized study, is critical to expanding reimbursement coverage from CMS and third-party payers to include patients with congestive heart failure. Enrollment in this clinical trial has passed the 80 percent mark, and will likely be completed by the third quarter of fiscal 2004. Results from the second phase of the ongoing International EECP Patient Registry (IEPR II) are expected to supplement the PEECH trial results, further demonstrating the efficacy of EECP therapy for treating congestive heart failure patients.

The Company implemented several programs designed to enhance our sales efforts. Recruitment and training of our sales force now includes emphasis on developing new markets and refining clinical selling skills. Although the selling cycle for EECP systems has lengthened due to increased competition and an uncertain economy, we expect to begin converting leads generated earlier in the



year into sales in upcoming quarters. Benefits from earlier marketing investments should also generate positive results in the near future.

While Vasomedical maintains its primary focus on the development of markets for EECP therapy in the United States, we will continue to target key international markets, principally in Europe. In December 2002, Vasomedical received authorization to apply the CE Mark on its EECP systems, indicating compliance with the European Union (EU) Medical Device Directives. This enables the Company to market new or improved EECP products in all 15 EU countries and partner countries without undergoing separate review and inspection for each product. As a result, Vasomedical is now marketing its Model TS3 in Europe. We are building awareness of EECP through our participation in major European congresses, including the European Society of Cardiology and the World Congress on Coronary Artery Disease. We have also begun the registration process for sale of EECP systems in Japan, a highly attractive market, through our recently appointed distributor.

Vasomedical is proud that its EECP technology provides medical professionals with products and services that improve the lives of the growing number of patients worldwide suffering with cardiovascular disease. We continue towards the achievement of our strategic goals with a relentless commitment to advancing medical technology and to providing better, more cost-effective medical outcomes for cardiovascular disease patients. We are focused on revenue growth and profitability as we build continued market acceptance of EECP therapy over the coming years.

We at Vasomedical are excited and optimistic about the Company's future growth prospects and the opportunity to provide value to our customers, patients and shareholders. We are assisted in these efforts by the ever-increasing clinical validation of our technology, the trust of doctors and their patients, the support of our staff and the loyalty of our shareholders. We thank you.

Sincerely,

Gregory D. Cash

Gregory D. Cash

President and Chief Executive Officer

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

[X] ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended May 31, 2003

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

Commission File No. 0-18105

VASOMEDICAL, INC.

(Name of registrant as specified in its charter)

Delaware	11-2871434
(State or other jurisdiction of incorporation or organization)	*(IRS Employer Identification No.)*
180 Linden Avenue, Westbury, New York	11590
(Address of Principal Executive Offices)	*(Zip Code)*
Registrant's telephone number, including area code:	(516) 997-4600

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

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

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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant as of August 20, 2003, based on the average price on that date, was $50,082,000. At August 20, 2003, the number of shares outstanding of the issuer's common stock was 57,827,690.

DOCUMENTS INCORPORATED BY REFERENCE

Part III – (Items 10, 11, 12 and 13) Registrant’s definitive proxy statement to be filed pursuant to Regulation 14A of the Securities Exchange Act of 1934.

PART I

ITEM ONE - BUSINESS

Except for historical information contained herein, the matters discussed are forward looking statements that involve risks and uncertainties. When used herein, words such as "anticipates", "believes", "estimates", "expects" and "intends" and similar expressions, as they relate to the Company or its management, identify forward-looking statements. Such forward-looking statements are based on the beliefs of the Company's management, as well as assumptions made by and information currently available to the Company's management. Among the factors that could cause actual results to differ materially are the following: the effect of the dramatic changes taking place in the healthcare environment; the impact of competitive procedures and products and their pricing; medical insurance reimbursement policies; unexpected manufacturing problems; unforeseen difficulties and delays in the conduct of clinical trials and other product development programs; the actions of regulatory authorities and third-party payers in the United States and overseas; uncertainties about the acceptance of a novel therapeutic modality by the medical community; and the risk factors reported from time to time in the Company's SEC reports. The Company undertakes no obligation to update forward-looking statements as a result of future events or developments.

General Overview

Vasomedical, Inc. (the Company), incorporated in Delaware in July 1987, is primarily engaged in designing, manufacturing, marketing and supporting EECP external counterpulsation systems based on the Company's proprietary technology currently indicated for use in cases of angina (i.e., chest pain), cardiogenic shock, acute myocardial infarction (i.e., heart attack) and congestive heart failure (CHF). The Company is also actively engaged in research to determine the potential benefits of EECP therapy in the setting of acute coronary syndromes, as well as in the management of other major vascular disease states, including congestive heart failure. EECP is a non-invasive, outpatient therapy for the treatment of diseases of the cardiovascular system. The therapy serves to increase circulation in areas of the heart with less than adequate blood supply and may restore systemic vascular function. The Company provides hospitals, clinics and private practices with EECP equipment, treatment guidance, and a staff training and maintenance program designed to provide optimal patient outcomes. EECP is a registered trademark for Vasomedical's enhanced external counterpulsation systems.

EECP therapy is currently reimbursed by Medicare and numerous other commercial third-party payers for the treatment of refractory angina. The reimbursement rate for a full course of 35 one-hour treatments ranges from $6,000 to $10,500. Although Medicare has not modified its national coverage policy for EECP therapy to specifically include CHF patients, the Company believes, based upon data published from the International EECP Patient Registry (IEPR), that there exists a significant subset of patients with CHF that also have disabling angina that would qualify for Medicare reimbursement under its present coverage policy.

The EECP External Counterpulsation Systems

General Discussion

Cardiovascular disease (CVD) is the leading cause of death in the world and is among the top three diseases in terms of healthcare spending in nearly every country. CVD claimed approximately 950,000 lives in the United States in 2000 and was responsible for 1 of every 2.5 deaths. The American Heart Association (AHA) reports in its *2003 Heart and Stroke Statistical Update* that, if high blood pressure is included, approximately 62 million Americans suffer from some form of cardiovascular disease. Among these, 12.9 million have coronary artery disease, 6.6 million of whom suffer from angina pectoris, a painful and often debilitating complication caused by obstruction of the arteries that supply blood to the myocardium or heart muscle, with an additional 400,000 new cases seen annually. Medications, including vasodilators, are often prescribed to increase blood flow to the coronary arteries. When drugs fail or cease to correct the problem, invasive revascularization procedures such as angioplasty and coronary stent placement, as well as coronary artery bypass grafting (CABG) are employed. Despite the success of these procedures in lowering the death rate from cardiovascular disease and allowing many to live longer lives, restenosis or reocclusion of the affected vessels remains a problem. Restenosis rates currently reported in the literature for angioplasty and stenting range from 18% - 50%. Half of all vein grafts in coronary artery bypass procedures exhibit localized or diffuse narrowings within approximately ten years.

CHF is a complication of many serious diseases in which the heart loses its full pumping capacity, causing blood to back up into other organs, especially the lungs and liver. The condition affects both sexes and is most common in people over age 50. Symptoms include shortness of breath, fatigue, swelling of the abdomen, legs and ankles, rapid or irregular heartbeat, low blood pressure and enlargement of the liver. Causes range from high blood pressure, heart-

valve disease, heart attack, coronary artery disease, heartbeat irregularities, severe lung disease such as emphysema, congenital heart disease, cardiomyopathy, hyperthyroidism and severe anemia.

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

According to 2003 AHA data, 2.4 million men and 2.5 million women in the US have the condition. About 550,000 new cases of the disease occur each year. Deaths caused by the disease increased 148% from 1979 to 2000. The prevalence of the disease is growing rapidly as a result of the aging of the population and the improved survival rate of people after heart attacks. Also, because the condition frequently entails visits to the emergency room and in-patient treatment, two-thirds of all hospitalizations for people over age 65 are due to CHF. In addition to careful outpatient care and monitoring, the economic burden of heart failure is enormous. A discussion of this subject in *Clinical Cardiology* (March 2000) estimated that heart failure management costs in 1999, for the US alone, were $56 billion. Worldwide, 22 million people have CHF and there are over 1 million new cases of CHF each year. Clearly, a treatment that can reduce the incidence of heart failure and alleviate some of this burden would be quickly adopted.

Given the pressing need to identify new and effective methods to treat CHF, the Company has been actively focusing clinical development resources on CHF. Heart failure offers a good strategic fit with the Company's current angina business and offers an equal or better market opportunity. Unmet clinical needs in CHF are greater than those for angina, as there are no consensus therapies, invasive or otherwise, beyond medical management for the condition. It is noteworthy that the IEPR currently shows that approximately one-third of patients treated also have a history of CHF and have demonstrated positive outcomes from EECP therapy.

The Systems

The EECP therapy systems, models MC2 and TS3 (collectively, the system(s)), are advanced treatment systems utilizing fundamental hemodynamic principles to relieve angina pectoris. Treatment is administered to patients on an outpatient basis usually in daily one-hour sessions, 5 days per week over seven weeks for a total of 35 treatments.

During EECP therapy, the patient lies on a bed while wearing three sets of inflatable pressure cuffs, resembling oversized blood pressure cuffs, on the calves, the upper and lower thighs and buttocks. The cuffs inflate sequentially -- via computer-interpreted ECG signals -- starting from the calves and proceeding upward during the resting phase of each heartbeat (diastole). When the heart pumps (systole), all three cuffs instantaneously deflate. This sequential "squeezing" of the legs creates a pressure wave that forces blood from the legs to the heart. To coordinate the inflation and deflation of the cuffs with the beating heart, the heart rate and rhythm are monitored constantly. Precise timing means that each wave of blood is delivered to the heart when it will do the most good. This surge of circulation insures that the heart does not have to work as hard to pump large amounts of blood through the body, and that more blood is forced into the coronary arteries which supply energy to the heart muscle or myocardium.

While the precise mechanism of action remains unknown, there is strong hypothetical evidence to suggest that EECP triggers a neurohormonal response that induces the production of growth factors and dilates existing blood vessels, thus fostering the recruitment of collateral blood vessels. These tiny collateral vessels, it is theorized, then bypass current blockages and feed blood to areas of the heart that are receiving an inadequate supply.

Circulation improvement is further induced or reinforced by the fact that a course of EECP treatment represents sustained and moderately vigorous exercise, even though passive in nature, that is much more than the often sedentary patient has been able to attempt previously.

Patients usually begin to experience symptomatic relief of angina after 15 or 20 hours of a 35-hour treatment regimen. Positive effects are sustained between treatments and usually persist years after completion of a full course of therapy. Data reported in the April 2000 issue of *Clinical Cardiology* showed a five-year survival rate for those who respond to EECP therapy of 88%, a rate similar to those seen in contemporary surgical bypass and angioplasty trials, despite the fact that many of the patients who underwent EECP therapy had already failed previous attempts at revascularization. In addition, data collected by the IEPR at the University of Pittsburgh Graduate School of Public Health points to sustained lowering of anginal severity and frequency of attacks at six, twelve and twenty-four months post-treatment.

In February 1995, the Company received 510(k) clearance to market the second-generation version of its EECP therapy system, the MC2, which incorporated a number of technological improvements over the original system. In addition, in December 2000, the Company received 510(k) clearance to market its third generation system, the TS3. The FDA's clearance in these cases was for the use of EECP therapy in the treatment of patients suffering from stable or unstable angina pectoris, acute myocardial infarction and cardiogenic shock. In June 2002, the FDA granted 510(k) market clearance for an upgraded TS3, which incorporated the Company's patent-pending

CHF treatment and oxygen saturation monitoring technologies, and provided for a new indication for the use of EECP in CHF, which applied to all present models of the Company's EECP systems.

Clinical Studies

Early experiments with counterpulsation at Harvard in the 1950s demonstrated that this technique markedly reduces the workload, and thus oxygen consumption, of the left ventricle. This basic effect has been demonstrated over the past forty years in both animal experiments and in patients. The clinical benefits of external counterpulsation were not consistently achieved in early studies because the equipment used then lacked some of the features found in the current EECP systems, such as the computerized electrocardiographic gating, that makes sequential cuff inflation possible. As the technology improved, however, it became apparent that both internal (i.e. intra-aortic balloon pumping) and external forms of counterpulsation were capable of improving survival in patients with cardiogenic shock following myocardial infarction. Later, in the 1980s, Dr. Zheng and colleagues in China reported on their extensive experience in treating angina using the newly developed "enhanced" sequentially inflating EECP device that incorporated a third cuff for the buttocks. Not only did a course of treatment with EECP reduce the frequency and severity of anginal symptoms during normal daily functions and also during exercise, but the improvements were sustained for years after therapy.

These results prompted a group of investigators at the State University of New York at Stony Brook (Stony Brook) to undertake a number of open studies with EECP between 1989 and 1996 to reproduce the Chinese results, using both subjective and objective endpoints. These studies, though open and non-randomized, showed statistical improvement in exercise tolerance by patients as evidenced by thallium-stress testing and partial or complete resolution of coronary perfusion defects as evidenced by radionuclide imaging studies. All of these results have been reported in the literature and support the assertion that EECP therapy is an effective and durable treatment for patients suffering from chronic angina pectoris.

In 1995, the Company began a large randomized, controlled and double-blinded multicenter clinical study (MUST-EECP) at four leading university hospitals in the United States to confirm the patient benefits observed in the open studies conducted at Stony Brook and to provide definitive scientific evidence of EECP therapy's effectiveness. Initial participating sites included the University of California San Francisco, Columbia University College of Physicians & Surgeons at the Columbia-Presbyterian Medical Center in New York, Beth Israel Deaconess Hospital, a teaching affiliate of Harvard Medical School, and the Yale University School of Medicine. These institutions were later joined by Loyola University, the University of Pittsburgh and Grant/Riverside Methodist Hospitals. MUST-EECP was completed in July 1997 and the results presented at the annual meetings of the American Heart Association in November 1997 and the American College of Cardiology in March 1998. The results of MUST-EECP were published in the *Journal of the American College of Cardiology (JACC)*, a major peer-review medical journal, in June 1999.

This 139 patient study, which included a sham-EECP control group, showed that EECP therapy was a safe and effective treatment option for patients suffering from angina pectoris, including those on maximal medication and for whom invasive revascularization procedures were no longer an option. The results of the MUST-EECP study confirmed the clinical benefits described in earlier open trials, namely a decline in anginal frequency, an increase in the ability to exercise and a decrease in exercise-induced signs of myocardial ischemia. Data collected by the IEPR at the University of Pittsburgh Graduate School of Public Health closely mirror the results seen in the MUST-EECP trial.

In fiscal 1999, the Company completed a quality-of-life study with EECP in the same institutions and with the same patients that participated in MUST-EECP. Two highly regarded standardized means of measurement were used to gauge changes in patients outlook and ability to participate in normal daily living during the treatment phase and for up to 12 months after treatment. Results of this study, which have been presented at major scientific meetings and published in the January 2002 *Journal of Investigative Medicine*, show that the group of patients receiving EECP enjoyed significantly improved aspects of health-related quality of life compared to those who received a sham treatment.

As part of its program to expand the therapy's indications for use beyond the treatment of angina, the Company applied for and received FDA approval in April 1998 to study, under an Investigational Device Exemption (IDE) protocol, the application of EECP in the treatment of CHF. A 32-patient feasibility study was conducted simultaneously at the University of Pittsburgh, the University of California San Francisco and the Grant/Riverside Methodist Hospitals in Columbus, Ohio. The results of this study were presented at the 49th Scientific Sessions of the American College of Cardiology in March 2000 and the Heart Failure Society of America's Annual Meeting in September 2000 and were published in the July/August 2002 issue of *Congestive Heart Failure*. This study concluded that EECP therapy increased functional capacity of the patients, was beneficial to left ventricular function and portends to be a useful adjunct to current medical therapy in heart failure patients.

In summer 2000, an IDE supplement to proceed with a pivotal study to demonstrate the efficacy of EECP therapy in most types of heart failure patients was approved. This study, known as PEECH (Prospective Evaluation of EECP in Congestive Heart Failure), began patient enrollment in March 2001 and enrollment is expected to be complete by the end of calendar 2003. The PEECH trial, which presently involves nearly thirty centers and was designed to enroll 180 patients, will evaluate improvements in exercise capacity and quality of life, as well as the reduction in the need for certain medications that CHF patients are typically prescribed. Centers participating in the PEECH trial include, among others, the Cleveland Clinic, Mayo Clinic, Scripps Clinic, Thomas Jefferson University Hospital, the University of North Carolina at Chapel Hill, the Minnesota Heart Failure Consortium, Advocate Christ Hospital, Hull Infirmary (UK), the University of California at San Diego Medical Center, the University of Pittsburgh Medical Center and the Cardiovascular Research Institute. The 510(k) clearance for CHF granted in June 2002 obviated the need to continue this trial for regulatory reasons. However, it is the intention of the Company to use the expected positive clinical outcomes of this trial to establish the clinical validation of EECP as a treatment for CHF and to obtain Medicare and other third-party reimbursement for this indication.

The IEPR at the University of Pittsburgh Graduate School of Public Health was established in January 1998 to track the outcomes of patients who have undergone EECP therapy. More than one hundred centers have participated in the registry and data from 5,000 patient records has been entered. Phase 2 of the IEPR, planned for an additional 2,500 patients, began enrollment in January 2002 and incorporates sub-studies that are examining treatment beyond 35 hours of treatment, where needed, the presence of protein in the urine of type 2 diabetic patients as a predictor of response to EECP, the effects on peripheral vascular disease, and the effects of sexual function in men. The IEPR is a vital source of information about the effectiveness of EECP in a real-world environment for the medical community at large. For this reason, the Company will continue to provide an ongoing grant to fund the registry to publicize data that assists clinicians in delivering optimal care to patients. Data from the IEPR show that patients continue to receive dramatic benefit at six, twelve and twenty-four months following completion of their course of EECP therapy.

Over the last several years, the Company’s clinical bibliography has expanded to include numerous publications in major peer-review journals, as well as abstracts presented a major medical conferences. Notable among these studies are several discussing the neurohumoral effects of EECP therapy including increases in the levels of nitric oxide, a potent vasodilator and decreases in levels of endothelin a vasoconstrictor as well as the release of certain growth factors.

The Company's Plans

The Company's short- and long-term plans are to:

(a) Enlarge the market opportunity, short and long-term, by (i) advancing the progress of marketplace acceptance of EECP as a common treatment for the early and mid-stage (Canadian Class I and II) angina populations and as a viable treatment modality for CHF (principally the chronic patient with NYHA Class II and III) and, (ii) increasing the reimbursed patient base for the existing angina and CHF indications, (iii) continue to drive the clinical validation process for acceptance of EECP as a primary or complimentary therapy for congestive heart failure, (iv) renew the exposure of EECP as an already approved therapy for acute coronary conditions, such as myocardial infarction and cardiogenic shock, and (v) investigate the possible applications of EECP therapy in diabetes disease management, and peripheral vascular and cerebrovascular conditions.

(b) Continue the development of campaigns to market the benefits of EECP therapy directly to clinicians, third-party payers and patients.

(c) Continue the development of EECP in international markets, principally through the establishment of a distribution network.

(d) Continue to establish and support academic reference centers in the United States and overseas in order to accelerate the growth and prestige of EECP therapy and to increase the number and diversity of clinical and mode-of-action studies, as well as the number of presentations, publications, speakers and advocates.

(e) Continue product development efforts to improve the EECP system and expand its intellectual property estate by filing for additional patents in the United States and other countries.

(f) Engage in educational campaigns for providers and medical directors of third party insurers designed to highlight the cost-effectiveness and quality-of-life advantages of EECP therapy in order to broaden coverage policies and process claims more rapidly for EECP services.

(g) Complete the PEECH clinical trial, publish the results in a major peer-review medical journal and submit data to insurers, including Medicare, for favorable coverage policies.

(h) Pursue possible investments in creative partnerships with others who have distinctive competencies or delivery capabilities for serving the cardiovascular and disease management marketplace.
(i) Continue to provide an ongoing grant to fund the International EECP Patient Registry at the University of Pittsburgh Graduate School of Public Health to publicize key information relating to patient outcomes.
(j) Launch the Company's new TS4 system at the Transcatheter Cardiovascular Therapeutics (TCT) and Heart Failure Society of America meetings in September 2003.

Sales and Marketing

Domestic Operations

The Company sells its EECP systems to treatment providers in the United States through a direct sales force that is supported by an in-house service organization. The Company's sales force is comprised of approximately twenty sales representatives, including management, as well as four independent sales agents.

The efforts of the Company's sales organization are further supported by a field-based staff of clinical educators who are responsible for the onsite training of physicians and therapists as new centers are established. Training generally takes three days. These centers are closely monitored and their medical charts reviewed for several weeks following the initial training of the center's clinicians to ensure treatment guidelines are being appropriately followed. This clinical applications group is also responsible for training and certification of new personnel at each site, as well as for updating providers on new clinical developments relating to EECP therapy.

The Company expects to focus more intently on sales to National Accounts. The Company plans to continue developing its relationships with such major U.S. hospital groups as Tenet Healthcare, Kaiser Permanente, Health South, Columbia HCA and with other cardiac care operations that have plans for nationwide expansion. The Company has entered into agreements with three group purchasing organizations: Amerinet, Magnet and MedAxiom. The impact upon our revenues and operating results relating to the agreements with the three group purchasing organizations have not been material to date.

Vasomedical's continuing transformation to a more commercial, market-driven company will be reflected in its marketing activities planned for 2004 to heighten awareness among clinicians, third-party payers and patients. Such activities are expected to include journal advertising, publication of EECP-related newsletters, support of physician education and physician outreach programs, exhibition at national, international and regional medical conferences, as well as sponsorship of seminars at professional association meetings. All of these programs are designed to support the Company's field sales organization. Additional Company marketing activities include supporting direct-to-patient marketing campaigns to individuals suffering from angina and other heart failure related symptoms as well as creating awareness among third-party payers to the benefits of EECP for patients suffering from heart failure as well as angina.

The Company employs service technicians responsible for the repair and maintenance of EECP systems and, in many instances, on-site training of a customer's biomedical engineering personnel. The Company provides a one-year product warranty that includes parts and labor. The Company offers post-warranty service to its customers under annual service contracts or on a fee-for-service basis.

International Operations

One of the Company's key objectives has been to appoint distributors in exchange for exclusive marketing rights to EECP in their respective countries. The Company currently has distribution agreements for Canada, Europe (United Kingdom, Italy, Germany, Sweden, Denmark, Netherlands, Greece, Belgium, Ireland, Turkey, Romania) the Middle East (Israel, Saudi Arabia, Egypt, Jordan, Iran, United Arab Emirates, Syria, Kuwait, Lebanon), Russia, India, Pakistan, the Caribbean Basin and the Far East (Japan, Malaysia, Singapore, Taiwan, Thailand, Philippines, Indonesia, Burma, Viet Nam, Laos, Cambodia). Each distribution agreement contains a number of requirements that must be met for the distributor to retain exclusivity, including minimum performance standards. In most cases, distributors must assist the Company either to obtain an FDA-equivalent marketing clearance or to establish confirmation clinical evaluations conducted by local opinion leaders in cardiology. Each distributor is responsible for obtaining any required approvals and maintaining an infrastructure to provide post-sales support, including clinical training and product maintenance services. In July 2000, the Company received its medical device license to market its EECP system in Canada and, in November 2002, the Company received authorization to apply the CE mark for its TS3 system. Foreign regulatory approvals and/or export licenses have been granted for several countries to date and applications are presently pending in Taiwan, Russia and Japan. However, there can be no assurance that all of the Company's distributors will be successful in obtaining proper approvals for the EECP system in their respective countries or that these distributors will be successful in their marketing efforts. The Company plans to enter into additional distribution agreements to enhance its international

distribution base. There can be no assurance that the Company will be successful in entering into any additional distribution agreements.

To date, revenues from international operations have not been significant (fiscal 2003 revenues approximated 5%) but are expected to increase in future years. Marketing activities planned include, among other things, assist in obtaining national or third-party healthcare insurance reimbursement approval, increasing our participation in medical conferences to create greater awareness and acceptance of EECP therapy by clinicians. International sales may be subject to certain risks, including export/import licenses, tariffs, other trade regulations and local medical regulations. Tariff and trade policies, domestic and foreign tax and economic policies, exchange rate fluctuations and international monetary conditions have not significantly affected the Company's business to date.

Competition

Presently, Vasomedical is aware of at least two competitors with an external counterpulsation device on the market, namely Cardiomedics, Inc. and Nicore, Inc. While the Company believes that these competitors' involvement in the market is limited, there can be no assurance that these companies will not become a significant competitive factor. The Company believes it competes favorably in value with these companies, as EECP is the only external counterpulsation system that is clinically proven in controlled clinical trials, the only system to be covered by an independent patient registry and the only system to have secured a CE mark. Vasomedical views other companies engaged in the development of device-related and biotechnology approaches to the management of cardiovascular disease as potential competitors in the marketplace as well.

There can be no assurance that other companies will not enter the market intended for EECP systems. Such other companies may have substantially greater financial, manufacturing and marketing resources and technological expertise than those possessed by the Company and may, therefore, succeed in developing technologies or products that are more efficient than those offered by the Company and that would render the Company's technology and existing products obsolete or noncompetitive.

Government Regulations

The EECP system is subject to extensive regulation by the FDA. Pursuant to the Federal Food, Drug and Cosmetic Act, as amended, the FDA regulates and must approve the clinical testing, manufacture, labeling, distribution and promotion of medical devices in the US.

If a medical device manufacturer can establish that a newly developed device is "substantially equivalent" to a device that was legally marketed prior to the enactment of the Medical Device Amendments Act of 1976 or to a device subsequently granted 510(k) market clearance, the manufacturer may seek marketing clearance from the FDA to market the device by filing a 510(k) premarket notification. The 510(k) premarket notification must be supported by appropriate data establishing the claim of substantial equivalence to the satisfaction of the FDA. Pursuant to recent amendments to the law, the FDA can now require clinical data or other evidence of safety and effectiveness. The FDA may have authority to deny marketing clearance if the device is not shown to be safe and effective even if the device is otherwise "substantially equivalent". The Company's EECP systems can be marketed in the United States based on the FDA's determination of substantial equivalence. There can be no assurance that the Company's EECP systems will not be reclassified in the future by the FDA and subject to additional regulatory requirements.

If substantial equivalence cannot be established or if the FDA determines that more extensive efficacy and safety data are in order, the FDA will require the manufacturer to submit an application for a Premarket Approval (PMA) for full review and approval. Management does not believe that the EECP system will ultimately require PMA approval for continued commercialization under its present labeling; however, the Company so designed the protocols for MUST-EECP and PEECH as to be able to generate some of the data needed in the event that a PMA is required at some future date. The Company received notice in June 2000 that its EECP system, when used to treat congestive heart failure patients, would be classified by FDA as a Class III PMA device. However, the FDA reversed that determination in June 2002 and the Company understands from discussions with the FDA that one reason for the change in the regulatory status of EECP for the treatment of congestive heart failure was the result of the agency's reassessment of the safety profile for EECP therapy. As such, the Company filed a 510(k) premarket notification and in June 2002, FDA granted market clearance to all three of the models of the EECP system for a new indication for use in the treatment of congestive heart failure.

In most countries to which the Company seeks to export the EECP system, it must first obtain documentation from the local medical device regulatory authority stating that the marketing of the device is not in violation of that country's medical device laws. The regulatory review process varies from country to country. The

Company has obtained regulatory approval of the EECP system in certain non-domestic markets, including Europe, and is in the process of obtaining such approvals in Taiwan, Russia and Japan.

There can be no assurance that all the necessary FDA clearances, including approval of any PMA required, and non-domestic approvals will be granted for EECP, its future-generation upgrades or newly developed products, on a timely basis or at all. Delays in receipt of or failure to receive such clearances could have a material adverse effect on the Company's financial condition and results of operations.

In June 1998, the Company's EECP System Model MC2 was awarded the CE Mark, which satisfies the regulatory provisions for marketing in all 15 countries of the European Union (EU). The CE Mark was awarded by DGM of Denmark, an official notified regulatory body, under the European Council Directive concerning medical devices. The ISO 9001 and ISO 13485 Certificates, issued by Underwriter's Laboratories (UL), cover the Company's design and manufacturing operation for the EECP systems and recognizes that the Company has established and operates a world-class quality system. In addition, in July 2000, the Company received its license for Level II devices from the Canadian Health authority and, in February 2003, the Company received a certificate from UL regarding its compliance with the Canadian Medical Device Conformity Assessment Standards (CMDCAS). In July 2001, the Company received the UL classified mark, an electrical certification, for its new TS3 system and received authorization to apply the CE Mark for the TS3 in November 2002. This CE certification also enables the Company to begin marketing new or improved EECP products in the EU without undergoing separate review and inspection for each product.

Compliance with current Good Manufacturing Practices (GMP) regulations is necessary to receive FDA clearance to market new products and to continue to market current products. The Company's manufacturing (including its contract manufacturer), quality control and quality assurance procedures and documentation are currently in compliance, and are subject to periodic inspection and evaluation by the FDA.

Third-Party Reimbursements

Health care providers, such as hospitals and physicians, that purchase or lease medical devices, such as the EECP system, for use on their patients generally rely on third-party payers, principally Medicare, Medicaid and private health insurance plans, to reimburse all or part of the costs and fees associated with the procedures performed with these devices. Even if a device has FDA clearance, Medicare and other third-party payers may deny reimbursement if they conclude that the device is not cost-effective, is experimental or is used for an unapproved indication.

In February 1999, the Centers for Medicare and Medicaid Services (CMS), the federal agency that administers the Medicare program for more than 39 million beneficiaries, issued a national coverage policy for the use of the EECP system for patients with disabling angina pectoris who, in the opinion of a cardiologist or cardiothoracic surgeon, are not readily amenable to surgical interventions, such as balloon angioplasty and cardiac bypass. In July 1999, CMS communicated payment instructions for the EECP therapy to its contractors around the country, stipulating coverage for services provided on or after July 1, 1999. In January 2000, a national Medicare payment level was established. Beginning August 1, 2000, Medicare coverage was extended to include EECP treatment received on an outpatient basis at hospitals and outpatient clinics under the new APC (Ambulatory Payment Classification) system. The national average payment rate approximated $150 per hourly session. Since January 2000, CMS approved three separate increases to the reimbursement rate for EECP therapy which, effective March 2003, has raised the average Medicare payment approximately 60% cumulatively to $208 per hourly session, or approximately $7,300 for a full course of therapy.

Some private insurance carriers continue to adjudicate EECP claims on a case-by-case basis. Since the establishment of reimbursement by the federal government, however, an increasing number of these private carriers now routinely pay for use of EECP for the treatment of angina and have issued positive coverage policies. The Company estimates that over 300 private insurers are reimbursing for EECP today at favorable payment levels and the Company expects that the number of private insurers and their related health plans that provide for EECP therapy as a covered benefit will continue to increase.

In June 2002, the Company announced that all three of its models of the EECP system had been granted a 510(k) market clearance from the FDA for a new indication for the treatment of congestive heart failure. Congestive heart failure is the single most expensive disease state in the nation. Although CMS has not modified its national coverage policy for EECP therapy to specifically include CHF patients, the Company believes that there exists a significant subset of patients with CHF that also have disabling angina that would qualify for Medicare reimbursement under its present definition. The Company intends to apply to CMS for a national coverage policy for EECP specific to CHF when it has completed and analyzed the results of the ongoing PEECH trial, a randomized, controlled clinical study on the use of EECP in CHF patients. The Company expects the enrollment in PEECH to be completed by the end of calendar 2003 and submission of the results to CMS no earlier than the end of calendar 2004.

The Company intends to vigorously pursue a constructive dialogue with many private insurers for the establishment of positive coverage policies for EECP that include CHF patients. The Company believes that its discussions with these third-party payers will, as a minimum, continue to define circumstances that justify reimbursement on a case-by-case basis and create a pathway for rapid review of patient data and determination of medical necessity.

If there is any material change in the availability of third-party coverage or the inadequacy of the reimbursement level for treatment procedures using the EECP system, it would adversely affect the Company's business, financial condition and results of operations. Moreover, the Company is unable to forecast what additional legislation or regulation, if any, relating to the health care industry or Medicare coverage and payment level may be enacted in the future or what effect such legislation or regulation would have on the Company.

Patents and Trademarks

The Company owns five US patents that issued in June 1988, September 1996, December 1999, June 2003 and July 2003, which expire at various times between 2005 and 2020. In addition, foreign patents have issued which expire in 2013, and others are pending. At August 1 2003, the Company has two patent applications in the US outstanding regarding aspects of the TS3 system, potential improvements, and new methods of treatment. The Company is planning to pursue these applications in other countries, including members of the European Union. The Company is also planning to file other patent applications regarding specific enhancements to the current EECP models, future generation products, and methods of treatment. Moreover, trademarks have been registered for the names “EECP” and “Natural Bypass”, as well as for its widely-recognized man-like figure representing the application of EECP therapy.

With respect to the patent expiring in fiscal 2005, we do not believe that the expiration of this particular patent will have a material effect on our future operations because the Company’s EECP units do not incorporate the features described in this patent.

The Company pursues a policy of seeking patent protection, both in the US and abroad, for its proprietary technology. There can be no assurance that the Company’s patents will not be violated or that any issued patents will provide protection that has commercial significance. Litigation may be necessary to protect the Company’s patent position. Such litigation may be costly and time-consuming, and there can be no assurance that the Company will be successful in such litigation. The loss or violation of the Company's EECP patents and trademarks could have a material adverse effect upon the Company's business.

Employees

As of August 1, 2003, the Company employed 91 full-time persons and 1 part-time person with 22 in direct sales and sales support, 10 in clinical applications, 32 in manufacturing, quality control and technical service, 8 in marketing and customer support, 11 in engineering, regulatory and clinical research and 9 in administration. None of the Company’s employees are represented by a labor union. The Company believes that its employee relations are good.

Manufacturing

The Company manufactures its EECP Model TS3 at its plant in Westbury, NY and believes its manufacturing facility, in addition to the other warehouse facilities presently under lease, are adequate to meet the current and immediately foreseeable future demand for the production of these systems. The Company’s EECP Model MC2 system was manufactured for the Company by Vamed Medical Instrument Company Ltd. (Vamed), a Chinese company. Early in 2002, Foshan Life Sciences Co. Ltd. (FLSC), a Chinese joint venture comprised of a Florida company and Vamed, assumed the operational activities for manufacturing the EECP Model MC2 systems and accessories for the Company pursuant to separate purchase orders issued by the Company. The Company believes that FLSC will be able to meet the Company’s future need for this Model MC2 system.

ITEM TWO - PROPERTIES

The Company owns its 18,000 square foot headquarters and manufacturing facility at 180 Linden Avenue, Westbury, New York 11590. The Company leases approximately 7,100 square feet of additional warehouse space under two operating leases with non-affiliated landlords, of which one expires in October 2003 and the other in September 2006, at an annual cost of approximately $70,000. Management believes that the Company can renegotiate the lease that will expire in October 2003 or lease other available space under reasonable terms and that these combined facilities are adequate to meet its current needs and should continue to be adequate for the immediately foreseeable future.

ITEM THREE - LEGAL PROCEEDINGS

In June 2001, an action was commenced in the New York Supreme Court, Nassau County, against the Company by the former holder of a warrant to purchase 100,000 shares of the Company's stock seeking undefined damages based upon a claim that the Company breached an agreement to register the common shares underlying the warrant at the "earliest practicable date" after due demand by the warrant holder had been made. In October 2002, the Company settled this matter for $600,000 through the execution of an agreement that enables the Company to satisfy this obligation over a four-year period ($200,000 in fiscal 2003, $100,000 in fiscal 2004, $133,000 each in fiscal years 2005 and 2006 and $34,000 in fiscal 2007). Accordingly, the Company recorded a $600,000 charge to operations in fiscal 2003. In December 2002, the Company paid $200,000 to the warrant holder pursuant to the terms of the settlement agreement.

In or about late June 2002, the Company was notified by a letter from the domestic counsel for Foshan Life Sciences Co. Ltd. (FLSC), a joint venture comprised of a Florida company and Vamed Medical Instrument Company Limited (Vamed), a Chinese company with whom the Company had an agreement to manufacture the Company's EECP Model MC2 system, that FLSC was initiating an arbitration proceeding before the Hong Kong International Arbitration Council (HKIAC) to recover compensatory and punitive damages in excess of $1,000,000 and injunctive relief based upon claims of breach of the manufacturing agreement, tortious interference and misappropriation of confidential information and trade secrets. Although possessing several substantive defenses to these claims, the Company initially has challenged the HKIAC's right to hear and determine the dispute on the ground that FLSC is neither a legitimate nor recognized party to the manufacturing agreement which provides for such arbitration and, therefore, is not entitled to enforce the same. The Company demanded on July 3, 2002 that FLSC deposit with the HKIAC security to cover the Company's costs of arbitration. To date, FLSC has neither responded to the Company's demand for security nor apparently filed a formal statement of claim with the HKIAC.

ITEM FOUR - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year.

PART II

ITEM FIVE - MARKET FOR THE COMPANY'S COMMON STOCK AND RELATED SECURITY HOLDER MATTERS

The Company's Common Stock trades on the Nasdaq SmallCap Market tier of The Nasdaq Stock Market[SM] under the symbol VASO. The approximate number of record holders of Common Stock as of August 1, 2003 was approximately 1,000, which does not include approximately 31,600 beneficial owners of shares held in the name of brokers or other nominees. The table below sets forth the range of high and low trade prices of the Common Stock as reported by the Nasdaq SmallCap Market tier of The Nasdaq Stock Market[SM] for the fiscal periods specified.

	Fiscal 2003		Fiscal 2002	
	High	**Low**	**High**	**Low**
First Quarter	$3.00	$1.25	$4.32	$3.51
Second Quarter	$1.85	$0.52	$3.75	$2.26
Third Quarter	$1.20	$0.70	$4.02	$2.65
Fourth Quarter	$1.60	$0.63	$3.30	$1.65

The last bid price of the Company's Common Stock on August 20, 2003 was $.92 per share. The Company has never paid any cash dividends on its Common Stock. While the Company does not intend to pay cash dividends in the foreseeable future, payment of cash dividends, if any, will be dependent upon the earnings and financial position of the Company, investment opportunities and such other factors as the Board of Directors deems pertinent. Stock dividends, if any, also will be dependent on such factors as the Board of Directors deems pertinent.

ITEM SIX - SELECTED FINANCIAL DATA

The following table summarizes selected financial data for each of the five years ended May 31, 2003 as derived from the Company's audited consolidated financial statements. These data should be read in conjunction with the consolidated financial statements of the Company, related notes and other financial information.

	Year ended May 31,				
	2003	**2002**	**2001**	**2000**	**1999**
Statements of Earnings					
Revenues	$24,823,619	$34,830,471	$27,508,338	$13,673,632	$6,024,263
Cost of sales and services	9,251,221	10,538,731	7,910,359	3,277,700	2,035,578
Gross profit	15,572,398	24,291,740	19,597,979	10,395,932	3,988,685
Selling, general & administrative expenses	13,714,913	13,686,958	11,634,965	7,383,567	6,207,924
Research and development expenses	4,544,822	5,112,258	2,554,470	1,413,464	706,934
Provision for doubtful accounts	3,728,484	1,304,000	325,000	400,000	-
Interest and financing costs	186,574	98,140	48,294	7,302	11,880
Interest and other income, net	(176,724)	(249,722)	(201,992)	(99,317)	(115,064)
	21,998,069	19,951,634	14,360,737	9,105,016	6,811,674
Earnings (loss) before income taxes	(6,425,671)	4,340,106	5,237,242	1,290,916	(2,822,989)
Income tax (expense) benefit, net	1,634,688	(1,554,000)	6,457,108	400,000	-
Net earnings (loss)	(4,790,983)	2,786,106	11,694,350	1,690,916	(2,822,989)
Deemed dividend on preferred stock	-	-	-	-	(864,000)
Preferred stock dividend requirement	-	-	-	(94,122)	(205,163)
Earnings (loss) applicable to common stockholders	$(4,790,983)	$2,786,106	$11,694,350	$1,596,794	$(3,892,152)
Net earnings (loss) per common share					
- basic	$(.08)	$.05	$.21	$.03	$(.08)
- diluted	$(.08)	$.05	$.20	$.03	$(.08)
Weighted average common shares outstanding - basic	57,647,032	57,251,035	56,571,402	52,580,623	49,371,574
- diluted	57,647,032	59,468,092	59,927,199	57,141,949	49,371,574
Balance Sheet					
Working capital	$11,478,092	$17,225,434	$16,214,655	$7,380,236	$2,174,774
Total assets	$35,327,550	$41,418,258	$36,518,974	$10,588,962	$5,198,172
Long-term debt	$1,177,804	$1,072,716	$1,108,593	$-	$-
Stockholders' equity (1)	$27,319,302	$31,602,604	$28,508,729	$7,943,770	$3,153,533

(1) No cash dividends on common stock were declared during any of the above periods.

ITEM SEVEN - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations
Fiscal Years Ended May 31, 2003 and 2002

The Company generated revenues from the sale, lease and service of EECP systems of $24,824,000 and $34,830,000 for fiscal 2003 and fiscal 2002, respectively, representing a 29% decrease. The Company generated earnings (loss) before income taxes of $(6,426,000) and $4,340,000 for fiscal 2003 and fiscal 2002, respectively. The Company reported net earnings (loss) of $(4,791,000) and $2,786,000 for fiscal 2003 and fiscal 2002, respectively, after recognition of an income tax provision (benefit) of $(1,635,000) and $1,554,000, respectively.

The decrease in revenues in fiscal 2003 as compared to fiscal 2002 is a result of the following:

(1) The Company's prior-year period revenues were favorably impacted by $4,187,000 resulting from the shipment of EECP units under sales-type leases. There was no equipment sold under sales-type leases in fiscal 2003. The Company offered equipment under sales-type leases only to select customers in the past, based upon, among other things, the customers' business model and history with the Company.

(2) Revenues in fiscal 2003 were affected by several factors including, an increase in the duration of the selling cycle of the Company's EECP systems and reduced average unit selling prices. Factors that have caused a longer selling cycle for EECP systems include, among other things, (a) a change in the mix of prospective customers toward larger medical practices and hospitals which have longer decision-making processes; (b) inconsistent or inadequate reimbursement coverage policies among certain third-party insurers; and (c) general economic conditions. Factors that have contributed to reduced average selling prices include increased competition and general economic conditions. Fiscal 2003 revenues from equipment sales were adversely impacted by reductions in average selling prices aggregating approximately $5,100,000.

(3) Revenues from non-domestic business were $1,122,000, accounting for nearly 5% of total revenues compared to $2,725,000, or 8%, in fiscal 2002.

The Company's revenue growth over the last several prior fiscal year periods through 2002 resulted primarily from the increase in cardiology practices and hospitals who became providers of EECP therapy following the announcement by the Centers for Medicare and Medicaid Services (CMS) in February 1999 of its decision to extend Medicare coverage nationally to the Company's noninvasive, outpatient treatment for coronary artery disease. CMS is the federal agency that administers the Medicare program for approximately 39 million beneficiaries. In addition, the results of the Company's multicenter, prospective, randomized, blinded, controlled clinical study of EECP (MUST-EECP) were published in the June 1999 issue of the *Journal of the American College of Cardiology*. Interest in EECP therapy has also been spurred by the announcement of the results of six-month, twelve-month and twenty-four month post-treatment outcomes reported by the International EECP Patient Registry, as well as numerous other studies reported and presented at major scientific meetings, including the American Heart Association (AHA) and the American College of Cardiology (ACC) annual meetings.

The Company continues to be optimistic about its future. In June 2002, the Company announced that all three of its models of the EECP system had been granted a 510(k) market clearance from the Food and Drug Administration (FDA) for a new indication for the treatment of congestive heart failure. Congestive heart failure afflicts more than 5 million people in the United States alone, with more than 550,000 new patients diagnosed every year. It is the single most expensive disease state in the nation, accounting for more than $40 billion in direct and indirect medical costs. EECP therapy was the featured topic at a CME (Continuing Medical Education) satellite symposium held at the Heart Failure Society of America's Sixth Annual Scientific Meeting in September where over 300 heart failure specialists attended the symposium, entitled "Enhanced External Counterpulsation: A Novel Potential Approach to Heart Failure," which was sponsored by the University of Minnesota and supported by an educational grant from the Company. Vasomedical's multicenter, randomized, controlled, PEECH™ (Prospective Evaluation of EECP in Congestive Heart Failure) trial, which is at 80% enrollment, is of significant importance and should confirm the benefits of EECP for heart failure patients that have been observed to date in smaller studies and lead to more widespread acceptance and adoption of the therapy in clinical practice. The Company's heart failure feasibility study was published in the July/August 2002 issue of the journal *Congestive Heart Failure*.

In November 2002, the Company received the CE Mark approval for its EECP systems from its notified body, DGM of Denmark, indicating compliance with the European Union (EU) Medical Device Directives. This enables the Company to begin marketing new or improved EECP products in all 15 EU countries and cooperating partner countries without undergoing separate review and inspection for each product. As a result, the Company began marketing its Model TS3 EECP system, which includes the Company's patent-pending congestive heart failure treatment and oxygen saturation monitoring technologies, throughout the EU.

In late December, CMS published changes to the Medicare Physician Fee Schedule for Calendar Year 2003 that were expected to result in a new national average payment level of approximately $195 per session for the Company's EECP therapy, or $6,841 per standard course of treatment. The new proposed average payment reflected a 27% increase in the national average reimbursement for EECP over 2002 levels. In February 2003, CMS finalized its December proposal which further increased the national average payment level to approximately $208 per session for the Company's EECP therapy, or $7,280 per standard course of treatment, resulting in an increase of 35% over 2002 levels. The national average payment rate for the therapy has increased by 60% since January 2000. The new rates took effect March 1, 2003.

Gross profit margins for fiscal 2003 and fiscal 2002 and were 63% and 70%, respectively. Gross profits are dependent on a number of factors, particularly the mix of EECP models sold and their respective average selling prices, the mix of EECP units sold, rented or placed during the period, the ongoing costs of servicing such units, and certain fixed period costs, including facilities, payroll and insurance. Gross profit margins are generally less on non-domestic business due to the use of distributors resulting in lower selling prices. Consequently, the gross profit realized during the current period may not be indicative of future margins. The decrease in overall gross profit for fiscal 2003 compared to 2002 primarily resulted from increases in unit costs, due to lower production levels, as well as overall reductions in the average selling price of EECP units.

Selling, general and administrative (SG&A) expenses for fiscal 2003 and fiscal 2002 were $13,715,000 (55% of revenues) and $13,687,000 (39% of revenues), respectively. The increase in the percentage of SG&A expenses as a percentage of sales was primarily due to the significant decrease in revenues from the prior comparable periods, as discussed above. The increase in SG&A expenses, on an absolute basis, from the comparable prior fiscal periods resulted primarily from a $600,000 accrual arising from the settlement of litigation in the first quarter, non-recurring charges of $420,000 for employee severance arrangements and executive recruiting fees in the second quarter, partially offset by overall decreases in sales related expenses due to decreased revenues.

Research and development (R&D) expenses of $4,545,000 (18% of revenues) for fiscal 2003 decreased by $567,000, or 11%, from fiscal 2002 R&D expenses of $5,112,000 (15% of revenues). R&D expenses are primarily impacted by the PEECH clinical trial in heart failure and other clinical initiatives (including the International EECP Patient Registry), as well as continued product design and development costs. The Company expects to continue its investments in product development and clinical trials in fiscal 2004 and beyond to further validate and expand the clinical applications of EECP, including, but not limited to, heart failure and acute coronary syndromes.

During fiscal 2003, the Company charged $3,728,000 (net of bad debt recoveries of $494,000) to its provision for doubtful accounts as compared to $1,304,000 in fiscal 2002. These charges primarily resulted from the write-off of receivables from a major customer during the first quarter of fiscal 2003 of approximately $3,000,000 due to significant uncertainties related to this customer's ability to satisfy its financial obligations to the Company (Note C), as well as specific reserves against certain domestic and international accounts that defaulted on their payment obligations. During the second quarter of fiscal 2003, the Company was able to successfully recover all of the units that it had sold under sales-type leases to the aforementioned major customer back into its finished goods inventory and recorded a bad debt recovery of $479,408, which represented the present carrying amount of the equipment. The Company redeployed certain pieces of the equipment while certain other pieces were returned to the Company's inventory for resale.

The Company's standard payment terms on its equipment sales are generally net 30 days and do not contain "right of return" provisions. The Company has historically offered a variety of extended payment terms, including sales-type leases, in certain situations and to certain customers in order to expand the market for its EECP products in the US and internationally. Such extended payment terms were offered in lieu of price concessions, in competitive situations, when opening new markets or geographies and for repeat customers. Extended payment terms cover a variety of negotiated terms, including payment in full - net 120, net 180 days or some fixed or variable monthly payment amount for a six to twelve month period followed by a balloon payment, if applicable. However, in fiscal 2003, approximately 2% of revenues were generated from sales in which extended payment terms were offered and no sales-type leases were offered. In fiscal 2003, approximately $454,000 included in the provision for doubtful accounts related to specific accounts that had been offered extended payment terms, while $752,000 included in the provision for doubtful accounts related to accounts offered standard terms. At May 31, 2003, $1,033,000, or 17%, of gross accounts receivable represent accounts offered extended payment terms. In general, reserves are generally calculated on a formula basis considering factors such as the aging of the receivables, time past due, and the customer's credit history and their current financial status. In most instances where reserves are required, or accounts are ultimately written-off, customers have been unable to successfully implement their EECP program. As the Company is creating a new market for EECP and recognizes the challenges that some customers may encounter, it has opted, at times, on a customer-by-

customer basis, to recover its equipment instead of pursuing other legal remedies against these customers, which necessitated the recording of a reserve or a write-off by the Company.

Sales-type leases are for terms ranging from three to six years. The annual minimum lease payments are subject to adjustment based on usage of the leased units and, if applicable, balloon payments may be required at the end of the lease term. In fiscal 2003, approximately $2,500,000 included in the provision for doubtful accounts resulted from financing receivables and a loan written-off in connection with the major customer described above. At May 31, 2003, net financing receivables to one customer were $679,000.

The decrease in interest income from the prior fiscal period is the direct result of a decrease in interest income related to certain equipment sold under sales-type leases to a major customer reported in fiscal 2002 and during the first quarter of fiscal 2003, as well as declining interest rates this year over last year, offset by the increase in the average cash balances invested during the current year.

The increase in interest expense over the prior periods is primarily due to interest on working capital borrowings and related charges under the Company's revolving secured credit facility, as well as loans secured to refinance the November 2000 purchase of the Company's headquarters and warehouse facility.

In fiscal 2003, the Company recorded a net benefit for income taxes of $1,635,000, inclusive of a $622,000 valuation allowance on deferred tax assets. This is in contrast to an income tax provision reported in fiscal 2002 of $1,554,000. Ultimate realization of the deferred tax assets, inclusive of the $1,891,000 deferred tax benefit recorded in fiscal 2003, is dependent upon the Company generating sufficient taxable income prior to the expiration of the loss carryforwards. In accordance with the Statement of Financial Accounting Standard No. 109 "Accounting for Income Taxes" ("FAS 109"), management concluded, based upon the weight of available evidence, that it is more likely than not that all of the deferred tax assets would be realized. It is management's belief that realization of the deferred tax asset is not dependent on material improvements over the average of fiscal 2000 through fiscal 2002 levels of pre-tax income, and believes that the Company is positioned for long-term growth despite the results achieved in fiscal 2003 (much of which was unexpected and non-recurring, including the write-off of approximately $2,600,000 in financing receivables and loan from the default of one customer, a $600,000 litigation settlement and $400,000 in employee severance payments and related expenses).

The following factors are anticipated to positively impact the future of the Company's business activities and initiatives:

A. A large and increasing worldwide patient population with cardiovascular disease demanding new choices of therapy, leading to increased coverage by CMS (in the US) and other foreign regulatory bodies. The estimated US patient population for angina patients is approximately 6.2 million and approximately 5 million patients for heart failure.
B. Medicare coverage rates for EECP have risen in each year since a national rate was established in January 2000, increasing 60% cumulatively.
C. Potential extension of Medicare coverage to include all classes of angina (beyond the present Class III/IV indication, for which the Company estimates the annual patient population in the US alone is 150,000, necessitating an installed base in excess of 3,000 systems).
D. Approval of Medicare coverage and other third-party payer policies specific to the congestive heart failure indication. The results of the Company's ongoing PEECH trial are likely a pre-requisite for significant coverage policies. The PEECH trial results are expected to be favorable (based upon a published feasibility study and other analyses) and should be available in early 2005. The combination of favorable PEECH trial results and Medicare reimbursement would likely be a significant catalyst for significant Company growth.
E. A cardiology community with a mandate to offer patients new disease management solutions providing effective clinical and economic outcomes. The Company has cultivated relationships with many of the leading institutions and cardiologists (as evidenced in its roster of PEECH study sites). The Company's Scientific Council is comprised of leading academic cardiologists, many of whom are past presidents of the American College of Cardiology, the American Heart Association or the Heart Failure Society of America.
F. The accumulation of EECP clinical validation and removal of obstacles to third-party insurance reimbursement. Numerous abstracts and publications are presented each year at major scientific meetings worldwide. The Company estimates that more than 300 third party payers reimburse for EECP therapy, many on a routine basis.
G. Expanded base of future FDA-cleared indications to more effectively penetrate the hospital market, particularly with respect to heart failure (for which FDA clearance was received in June 2002), acute coronary syndromes (also cleared by FDA), diabetes management, and peripheral and cerebrovascular diseases.

H. Initiatives planned to lower the standard cost of the Company's EECP systems, improving margins or preserving them from further erosion.
I. The Company has a large, non-domestic market opportunity that is developing through a network of local independent distributors, primarily in Europe for which the Company has received the CE Mark (FDA-clearance equivalent).
J. Continuing to prove more definitively the mechanism of action by which EECP operates. These smaller scale clinical studies are aimed at convincing those with lingering doubt about EECP's effectiveness that the therapy is, indeed, safe and effective and serves to expand the market. Studies have been presented and published in this area.
K. Increased hardware utility to allow for the use of EECP in an increasing number of patient environments. The EECP TS3 system is mobile and can be used more easily in the hospital environment. Future system modifications could allow for emergency room use.

The Company acknowledges that certain risk factors have the potential to adversely affect the business opportunity that has been outlined. Initiatives planned to mitigate the impact of such risks have been addressed. They include:

A. Dependence on outcome of PEECH trial and related reimbursement coverage policies. Presently, the Company is engaged in the PEECH trial, a pivotal study to evaluate the effectiveness of EECP therapy for congestive heart failure patients. The results of this study are likely to be the catalyst for Medicare and other third-party reimbursement coverage policies specific to heart failure. Although the Company has received clearance from the FDA to market for heart failure, medical community acceptance and insurance coverage policies are highly influenced by scientifically proven technologies. The Company had designed its PEECH protocol in cooperation with the FDA and had reached a formal agreement with the FDA that the key parameters of its investigational plan for this trial were appropriate to determine the effectiveness of EECP as an adjunct therapy for heart failure. The Company believes that its PEECH trial is robust and will provide favorable results that should provide a reasonable basis for market acceptance and insurance reimbursement.
B. Dependence on a single product platform. Current FDA labeling extends beyond chronic stable angina and congestive heart failure to unstable angina, myocardial infarction and cardiogenic shock (i.e., acute coronary syndromes). The Company intends to pursue additional clinical studies to validate the safety and effectiveness of EECP in acute coronary syndromes over the next few years.
C. Dependence on consistency of research findings about EECP efficacy and increasing acceptance of EECP by the medical community. To that end, the Company has sponsored the International EECP Patient Registry (IEPR), maintained at the University of Pittsburgh. Results to date (5,000 patients enrolled) have supported favorable results achieved in the initial trials conducted at the State University of New York at Stony Brook, as well the conclusions from the MUST-EECP multicenter, controlled, randomized and double-blinded efficacy trial completed in 1997. Phase 2 of the registry, known as IEPR II, began enrollment of 2,500 patients in January 2002 and is capturing additional date from angina patients that include, among other things, data related to concomitant heart failure symptoms.
D. Technological obsolescence of EECP by newly developed process, device or therapy. There is no assurance that such technology couldn't exist in the future to make EECP obsolete. However, there is presently little evidence to suggest it. Several companies are evaluating devices and drugs for heart failure but there is presently no consensus treatment for those patients. Even in the event one or more drugs are developed, it is unlikely that EECP would be replaced completely as many ill patients suffer a myriad of conditions with co-morbid disease states that would make them contraindicated for use. The cardiovascular disease market is so large and the disease so complex that numerous technologies can aggressively and successfully compete in the marketplace.
E. Competition, through acquisition or development, from companies with superior financial resources and marketing capabilities. There are presently only two competitors with a marketed external counterpulsation system. The Company believes that neither is well capitalized or positioned within the medical community (neither have done extensive clinical trials). The Company estimates having a 75%+ market share and doesn't foresee significant changes.
F. New or changed regulatory environment that creates unforeseen obstacles, or costs, to continue to market and sell the EECP system. None are known at this time. Such changes in this industry are not swift and would allow, in the opinion of management, sufficient time to modify its business plan or become compliant.

G. New or changed insurance reimbursement criteria that create, or reinstate, obstacles to physician acceptance of EECP. With respect to Medicare, the Company is confident that rates are now and will remain at sufficient levels to support the Company's growth. In fact, CMS raised rates for EECP treatment by 35% in March 2003 while all other cardiovascular procedures were adjusted downward by 4%. It is unlikely that Medicare rates would drop to a level that would adversely harm the Company's future prospects as EECP is proven to be a cost-effective solution in the management of angina.

Although ultimate realization of all deferred tax assets is not assured, management has concluded, in accordance with FAS 109, that based upon the weight of available evidence, it is more likely than not that the deferred tax asset will be realized. The amount of the deferred tax assets considered realizable, however, could be reduced in the future if estimates of future taxable income during the carryforward period are reduced.

Fiscal Years Ended May 31, 2002 and 2001

The Company generated revenues from the sale and lease of EECP systems of $34,830,000 and $27,508,000 for fiscal 2002 and fiscal 2001, respectively, representing a 27% increase. The Company generated earnings before income taxes of $4,340,000 and $5,237,000 for fiscal 2002 and fiscal 2001, respectively. The Company reported net earnings of $2,786,000 and $11,694,000 for fiscal 2002 and fiscal 2001, respectively, after recognition of an income tax provision (benefit) of $1,554,000 and $(6,457,000), respectively.

Effective January 1, 2002, CMS approved an additional increase of 7%, raising the average Medicare payment to $153 per hourly session, or $5,355 for a full course of therapy. These events led to an increased demand for EECP therapy and EECP equipment and, consequently, to revenue growth overall. Pursuant to contractual arrangements with two customers, the Company has sold equipment under sales-type leases. In fiscal 2002, revenues of $4,187,000 were reported from equipment sold under sales-type leases. Revenues from non-domestic business were $2,725,000, accounting for nearly 8% of total revenues compared to $1,441,000, or 5%, in fiscal 2001.

Gross profit margins for fiscal 2002 and 2001 were 70% and 71%, respectively. Gross profits are dependent on a number of factors, particularly the mix of EECP units sold, rented or placed during the period, the ongoing costs of servicing such units, and certain fixed period costs, including facilities, payroll and insurance. Gross profit margins are generally less on non-domestic business due to the use of distributors resulting in lower selling prices. Consequently, the gross profit realized during the current period may not be indicative of future margins. The decrease in gross profit margin for fiscal 2002 compared to 2001 was primarily attributable to a change in the product mix now favoring the new, but more costly, Model TS3 system manufactured in Westbury, NY. Management believes that the increased production costs of TS3 will be offset in the future by manufacturing efficiencies and engineering initiatives toward further product cost reduction. In addition, gross profit margin was further affected by the change in sales mix, inclusive of an 89% increase in revenues from non-domestic business in fiscal 2002 which, as described above, has been less profitable than the Company's domestic business.

Selling, general and administrative (SG&A) expenses for fiscal 2002 and 2001 were $13,687,000 (39% of revenues) and $11,635,000 (42% of revenues), respectively. The Company has been effectively leveraging its SG&A expenses as a percentage of sales, decreasing by 3%. The increases in SG&A expenses, on an absolute basis, from the comparable prior fiscal year resulted primarily from increases in personnel in sales and marketing functions, increases in selling and marketing expenses (including commissions) related to increased revenues, as well as increases in insurance and other administrative expenses.

Research and development (R&D) expenses of $5,112,000 (15% of revenues) for fiscal 2002 increased by $2,558,000, or 100%, from the prior fiscal year of $2,554,000 (9% of revenues). The increase relates primarily to expenses incurred for the PEECH clinical trial in heart failure (which received FDA approval in July 2000 and began treating patients in March 2001), the initiation of other clinical studies and initiatives, as well as continued product design and development costs (including an increase in engineering and other personnel). The Company's newly developed EECP system, Model TS3, received FDA 510(k) clearance to market in December 2000 and was commercially available for sale in the fourth quarter of fiscal 2001. The Company intends to invest approximately 12%-14% of revenues in product development and clinical trials in fiscal 2003 to further expand the clinical applications of EECP, including, but not limited to, heart failure, diabetes disease management and acute coronary syndromes.

In fiscal 2002, the Company charged $1,304,000 to its provision for doubtful accounts, increasing reserves primarily as a result of extended credit terms offered to certain domestic and international customers, as well as a valuation reserve in connection with long-term financing receivables generated by equipment sold under sales-type leases. The Company's standard payment terms on its equipment sales are generally net 30 days and do not contain "right of return" provisions. However, the Company has historically offered a variety of extended payment terms, including sales-type leases, in certain situations and to certain customers in order to expand the market for its EECP

products in the US and internationally. Such extended payment terms were offered in lieu of price concessions, in competitive situations, when opening new markets or geographies and for repeat customers. Extended payment terms cover a variety of negotiated terms, including payment in full - net 120, net 180 days or some fixed or variable monthly payment amount for a six to twelve month period followed by a balloon payment, if applicable. In fiscal 2002, approximately $288,000 included in the provision for doubtful accounts related to specific accounts that had been offered extended payment terms, while $666,000 included in the provision for doubtful accounts related to accounts offered standard terms. At May 31, 2002, $5,072,000, or 37%, of gross accounts receivable represent accounts offered extended payment terms. In general, reserves are generally calculated on a formula basis considering factors such as the aging of the receivables, time past due, and the customer's credit history and their current financial status. In most instances where reserves are required, or accounts are ultimately written-off, customers have been unable to successfully implement their EECP program. As the Company is creating a new market for EECP and recognizes the challenges that some customers may encounter, it has opted, at times, on a customer-by-customer basis, to recover its equipment instead of pursuing other legal remedies against these customers, which necessitated the recording of a reserve or a write-off by the Company.

Sales-type leases are for terms ranging from three to six years. The annual minimum lease payments are subject to adjustment based on usage of the leased units and, if applicable, balloon payments may be required at the end of the lease term. In fiscal 2002, approximately $350,000 included in the provision for doubtful accounts related to financing receivables to recognize the possibility that some units that were located in centers to be closed by one customer might not be utilized as planned and subsequently default. At May 31, 2002, net financing receivables to two customers were $3,575,000.

The increase in interest expense over the prior fiscal year is primarily due to interest payments on loans secured for the purchase of the Company's headquarters and operating facility in November 2000, as well as working capital borrowings under the Company's revolving secured credit facility.

The increase in interest income in fiscal 2002 is the direct result of interest income reported on equipment sold under sales-type leases, offset by the decrease in the average cash balances invested during the year, as well as declining interest rates this year over last year.

In fiscal 2002, the Company recorded a provision for income taxes of $1,554,000, inclusive of $39,000 in current tax expense principally resulting from state taxes. This is in contrast to a deferred tax benefit reported in fiscal 2001 of $6,457,000 resulting principally from a change in the deferred tax valuation allowance.

Liquidity and Capital Resources

The Company has financed its fiscal 2003 and 2002 operations primarily from working capital and operating results. At May 31, 2003, the Company had a cash balance of $5,223,000 and working capital of $11,478,000, compared to a cash balance of $2,968,000 and working capital of $17,225,000 at May 31, 2002. The Company's working capital decreased in fiscal 2003 primarily due to, among other things described below, the reclassification of approximately $2,730,000 in current deferred tax assets related to the anticipated utilization in fiscal 2003 of net operating loss carryforwards to long-term deferred tax assets as a result of current year operating losses and management's revised estimate of the anticipated utilization of such deferred asset. The Company's operating activities provided (used) cash of $3,180,000 and $(2,317,000) in fiscal 2003 and fiscal 2002, respectively. Net cash provided from operations during fiscal 2003 consisted primarily of decreases in accounts receivable, inventories and other current assets and increases in other long-term liabilities, partially offset by decreases in accounts payable and accrued expenses. The decrease in inventories primarily resulted from the better management and utilization of raw materials. The decrease in accounts receivable resulted primarily from collection efforts in the period. The Company's management has tightened its sales and credit policies and provides routine oversight with respect to its accounts receivable credit and collection efforts, as well as the procurement of its raw materials and management of finished goods inventory levels. Cash provided by operations in fiscal 2003 may not necessarily be indicative of the results expected in future periods.

Accounts receivable turnover was 2.5 and 2.7 for the fiscal years ended May 31, 2003 and 2002, respectively, representing a decline of 7%. Accounts receivable turnover has been primarily impacted by the offering of extended payment terms to customers during fiscal 2002. The Company has offered only a limited number of such extended payment terms to customers in fiscal 2003, approximating 2% of equipment sales. At the end of the fourth quarter ended May 31, 2003, net accounts receivable exceeded quarterly revenues by 13%, representing a reduction of 10% from the comparative 2002 period rate of 23%. Other factors that can impact the periodic net accounts receivable to quarterly revenues ratio include sales growth, the type of customer (i.e., physician practice, hospital, distributor) and their payment routine, the timing of respective sales in a given quarterly period and overall economic conditions. The ratio of the allowance for doubtful accounts to gross accounts receivable was 9.4% and 7.9% for the fiscal years ended May 31, 2003 and 2002, respectively. This ratio

was adversely affected in fiscal 2003 as a result of additional reserves, primarily on fiscal 2002 revenues. The Company expects each of these ratios to improve in future periods primarily as a result of collections of existing accounts receivable with extended payment terms, limiting the offering of extended payment terms in the future, and continued application of its revised credit policies which include customer deposits and external credit verification and validation.

Investing activities used net cash of $326,000 and $820,000 during fiscal 2003 and fiscal 2002, respectively. The principal use of cash during fiscal 2003 was for the purchase of property and equipment.

Financing activities provided (used) cash of $(598,000) and $2,319,000 during fiscal 2003 and fiscal 2002, respectively. Financing activities during fiscal 2003 and fiscal 2002 consisted of the utilization of the Company's credit facility, as well as the receipt of cash proceeds upon the exercise of Company common stock options and warrants by officers, directors, employees and consultants. In addition, in fiscal 2002, the Company refinanced its long-term obligations on the purchase of its headquarters and warehouse facility. In October 2002, the Company amended its existing credit facility to provide for borrowings up to $5,000,000 ($2,000,000, at any time that consolidated net income for the immediately preceding three-month period is less than $1), primarily based upon eligible accounts receivable, as defined therein, at the Libor Rate plus 200 basis points or the published Prime Rate plus 50 basis points. Under the terms of the agreement, which expires in February 2005, the Company is required to meet certain quarterly covenants, including leverage ratio, liquidity, capital expenditures, minimum net income, minimum interest coverage and minimum tangible net worth. Although the Company was not in compliance with certain financial covenants during each of its first three fiscal quarters of 2003, the bank issued waivers to the Company for those periods. In April 2003, the agreement was further amended to allow for borrowings absent compliance with the financial covenants as long as such eligible borrowings are collateralized by cash. In April 2003, the Company repaid all outstanding borrowings under the agreement instead of maintaining restricted cash balances. At May 31, 2003, the Company did not meet the minimum interest coverage and tangible net worth covenants and future compliance with each of these covenants in the near term is not certain. Management believes, based upon its cash balance ay May 31, 2003 and its internal forecasts, that any limitation on the Company's ability to borrow against this credit facility in fiscal 2004 would not have an adverse effect on the Company's operations.

On February 14, 2003, the Company was notified by The Nasdaq Stock Market, Inc. that it was not in compliance with the minimum $1.00 per share requirement for continued listing inclusion and that it would be provided 180 days to regain compliance. On June 16, 2003, Nasdaq notified the Company that since the closing bid price of the Company's common stock had been at $1.00 per share or greater for at least ten consecutive trading days, the Company regained compliance and that the issue of non-compliance has been closed.

Management believes that its working capital position at May 31, 2003, the ongoing commercialization of the EECP system, and the effect of initiatives undertaken to improve our cash position by managing operating expense levels will make it possible for the Company to support its operating expenses and to implement its business plans for at least the next twelve months.

The following table presents the Company's expected cash requirements for contractual obligations outstanding as of May 31, 2003:

	Total	Due as of 5/31/04	Due as of 5/31/05 and 5/31/06	Due as of 5/31/07 and 5/31/08	Due Thereafter
Long-Term Debt	$1,286,000	$108,000	$243,000	$149,000	$786,000
Operating Leases	152,000	61,000	79,000	12,000	-
Litigation Settlement	400,000	100,000	300,000	-	-
Severance obligations	100,000	100,000	-	-	-
Employment Agreements	602,000	398,000	204,000	-	-
Total Contractual Cash Obligations	$2,540,000	$767,000	$826,000	$161,000	$786,000

Effects of Inflation

The Company believes that inflation and changing prices over the past three years have not had a significant impact on our revenue or on our results of operations.

Critical Accounting Policies

Financial Reporting Release No. 60, which was released by the Securities and Exchange Commission, or SEC, in December 2001, requires all companies to include a discussion of critical accounting policies or methods used in the preparation of financial statements. Note A of the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended May 31, 2003 includes a summary of the Company's significant accounting policies and methods used in the preparation of our financial statements. In preparing these financial statements, the Company has made its best estimates and judgments of certain amounts included in the financial statements, giving due consideration to materiality. The application of these accounting policies involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates. The Company's critical accounting policies are as follows:

Revenue Recognition

The Company recognizes revenue from the sale of its EECP system in the period in which the Company fulfills its obligations under the sale agreement, which includes delivery and customer acceptance. The sale of EECP systems are not subject to a right of return, other than for normal warranty matters, and the Company is not obligated for post-sale upgrades to these systems. The Company has also entered into lease agreements for its EECP system, generally for terms of one year or less, that are classified as operating leases. Revenues from operating leases are generally recognized, in accordance with the terms of the lease agreements, on a straight-line basis over the life of the respective leases. For certain operating leases in which payment terms are determined on a "fee-per-use" basis, revenues are recognized as incurred (i.e., as actual usage occurs). The cost of the EECP system utilized under operating leases is recorded as a component of property and equipment and is amortized to cost of sales over the estimated useful life of the equipment, not to exceed five years. There are no significant minimum rental commitments on these operating leases at May 31, 2003. Revenues from the sale of extended warranties on the EECP system are recognized on a straight-line basis over the life of the extended warranty, ranging from one year to four years. Deferred revenues relate to extended warranty fees that have been paid by customers prior to the performance of extended warranty services.

The Company follows SFAS No. 13, "Accounting For Leases," for its sales of EECP units under sales-type leases it presently has with one customer. In accordance with SFAS No. 13, the Company records the sale and financing receivable at the amount of the minimum lease payment, less unearned interest income, which is computed at the interest rate implicit in the lease, and executory costs, which are primarily related to product warranties on each unit sold. Unearned interest income is amortized to income in a manner that produces a constant rate of return on the investment in the sales-type lease. The cost of the EECP unit acquired by the customer is recorded as cost of sales in the same period that the sale is recorded.

Accounts Receivable/Financing Receivables

The Company's accounts receivable – trade are due from customers engaged in the provision of medical services. 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 60 days from shipment and are stated at amounts due from customers net of allowances for doubtful accounts, returns, term discounts and other allowances. Accounts outstanding longer than the contractual payment terms are considered past due. Estimates are used in determining our allowance for doubtful accounts based on our historical collections experience, current trends, credit policy and a percentage of our accounts receivable by aging category. In determining these percentages, we look at historical write-offs of our receivables. The Company also looks at the credit quality of its customer base as well as changes in its credit policies. The Company continuously monitors collections and payments from its customers. 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 it has in the past.

In addition, the Company periodically reviews and assesses the net realizability of its receivables arising from sales-type leases. If this review results in a lower estimate of the net realizable value of the receivable, an allowance for the unrealized amount is established in the period in which the estimate is changed. In the first quarter of fiscal 2003, management decided to write-off financing receivables under sales-type leases of approximately $2,558,000 as a result of significant uncertainties with respect to a major customer's ability to meet its financial obligations.

Inventories

The Company values inventory at the lower of cost or estimated market, cost being determined on a first-in, first-out basis. 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 our products as well as forecasts of future product demand.

Warranty Costs

Equipment sold is generally covered by a warranty period of one year. The Company accrues a warranty reserve for estimated costs to provide warranty services when the equipment sale is recognized. The factors affecting the Company's warranty liability include the number of units sold and historical and anticipated rates of claims and costs per claim. The Company periodically assesses the adequacy of its warranty liability based on changes in these factors. Warranty reserves related to units sold under sales-type leases are recorded as executory costs, which serve to reduce the amount of financing receivables reported in the consolidated balance sheets. The Company records revenue on extended warranties on a straight-line basis over the term of the related warranty contracts. Service costs are expensed as incurred.

Deferred revenues related to extended warranties are $1,709,551 and $991,204 at May 31, 2003 and 2002, respectively.

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, the Company generally considers all expected future events other than an enactment of changes in the tax laws or rates. The deferred tax asset is continually evaluated for realizability. To the extent management's judgment regarding the realization of the deferred tax assets change, 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 management's estimate as to the realizability of the asset changed.

Deferred tax liabilities and assets shall be classified as current or non-current based on the classification of the related asset or liability for financial reporting. A deferred tax liability or asset that is not related to an asset or liability for financial reporting, including deferred tax assets related to carryforwards, shall be classified according to the expected reversal date of the temporary difference. The deferred tax asset recorded by the Company relates primarily to the realization of net operating loss carryforwards, of which the allocation of the current portion reflects the expected utilization of such net operating losses in fiscal 2004. Such allocation is based upon management's internal financial forecast for fiscal 2004 and may be subject to revision based upon actual results.

Stock Compensation

The Company has four stock-based employee compensation plans, which are described more fully in Note H. The Company accounts for stock-based compensation using the intrinsic value method in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations ("APB No. 25") and has adopted the disclosure provisions of Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment of FASB Statement No. 123." under APB No. 25, when the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized. Accordingly, no compensation expense has been recognized in the consolidated financial statements in connection with employee stock option grants.

Pro forma compensation expense may not be indicative of future disclosures because it does not take into effect pro forma compensation expense related to grants before 1995. For purposes of estimating the fair value of each option on the date of grant, the Company utilized the Black-Scholes option-pricing model.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

Equity instruments issued to nonemployees in exchange for goods, fees and services are accounted for under the fair value-based method of SFAS No. 123.

Recently Issued Accounting Standards

In August 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144"). SFAS No. 144 supersedes SFAS No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" and Accounting Principles Board Opinion No. 30, "Reporting Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." This statement retains the fundamental provisions of SFAS No. 121 for recognition and measurement of impairment, but amends the accounting and reporting standards for segments of a business to be disposed of. The new rules were effective for the Company on June 1, 2002. The adoption of SFAS No. 144 did not have a material effect on the Company's financial position or results of operations.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure" ("SFAS 148") which addresses financial accounting and reporting for recording expenses for the fair value of stock options. SFAS 148 provides alternative methods of transition for a voluntary change to fair value based method of accounting for stock-based employee compensation. Additionally, SFAS No. 148 requires more prominent and more frequent disclosures in financial statements about the effects of stock-based compensation. The provisions of this Statement are effective for fiscal years ending after December 15, 2002. The adoption of SFAS No. 148 did not have a material impact on the financial position or results of operations of the Company.

In April 2003, the FASB issued Statement of Financial Accounting Standards No. 149 ("SFAS No. 149"), "Amendment of Statement 133 on Derivative Instruments and Hedging Activities," which amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under SFAS No. 133. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003 except for the provisions that were cleared by the FASB in prior pronouncements. The Company is currently evaluating the effect of the adoption of SFAS No. 149 on its financial position and results of operations.

In May 2003, the FASB issued Statement of Financial Accounting Standards No. 150 ("SFAS No. 150"), "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." This statement establishes standards for how an issuer classifies and measures in its statement of financial position certain financial instruments with characteristics of both liabilities and equity. In accordance with the standard, financial instruments that embody obligations for the issuer are required to be classified as liabilities. This Statement shall be effective for financial instruments entered into or modified after May 31, 2003, and otherwise shall be effective at the beginning of the first interim period beginning after June 15, 2003. The Company is currently evaluating the effect of the adoption of SFAS No. 150 on its financial position and results of operations.

In November 2002, the FASB issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). FIN 45 requires that upon issuance of a guarantee, a guarantor must recognize a liability for the fair value of an obligation assumed under a guarantee. FIN 45 also requires additional disclosures by a guarantor in its interim and annual financial statements about the obligations associated with guarantees issued. The recognition provisions of FIN 45 are effective for any guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. The adoption of FIN 45 did not have a material impact on the Company's financial position or results of operations.

In January 2003, the FASB issued FASB Interpretation No. 46 "Consolidation of Variable Interest Entities" ("FIN 46"). In general, a variable interest entity is a corporation, partnership, trust, or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. A variable interest entity often holds financial assets, including loans or receivables, real estate or other property. A variable interest entity may be essentially passive or it may engage in activities on behalf of another company. Until now, a company generally has included another entity in its consolidated financial statements only if it controlled the entity through voting interests. FIN 46 changes that by requiring a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. FIN 46's consolidation requirements apply immediately to variable interest entities created or acquired after January 31, 2003. The consolidation requirements apply to older entities in the first fiscal year or interim period beginning after June 15, 2003. Certain of the disclosure requirements apply in all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. The Company adopted FIN 46 effective January 31, 2003. The adoption of FIN 46 did not have a material impact on the Company's financial position or results of operations.

In November 2002, the Emerging Issues Task Force reached a consensus opinion of EITF 00-21, "Revenue Arrangements with Multiple Deliverables". That consensus provides that revenue arrangements with multiple deliverables should be divided into separate units of accounting if certain criteria are met. The consideration of the arrangement should be allocated to the separate units of accounting based on their relative fair values, with different provisions if the fair value is contingent on delivery of specified items or performance conditions. Applicable revenue criteria should be considered separately for each separate unit of accounting. EITF 00-21 is effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003. Entities may elect to report the change as a cumulative effect adjustment in accordance with APB Opinion 20, "Accounting Changes." The Company is currently evaluating the impact of the adoption of EITF 00-21 on its financial statements.

Qualitative and Quantitative Disclosures About Market Risk

The Company is exposed to certain financial market risks, including changes in interest rates. All of the Company's revenue, expenses and capital spending are transacted in US dollars. The Company's exposure to market risk for changes in interest rates relates primarily to our cash and cash equivalent balances, investments in sales-type leases and the line of credit agreement. The majority of our investments are in short-term instruments and subject to fluctuations in US interest rates. Due to the nature of our short-term investments, we believe that there is no material risk exposure.

ITEM EIGHT - FINANCIAL STATEMENTS

The consolidated financial statements listed in the accompanying Index to Consolidated Financial Statements are filed as part of this report.

ITEM NINE - DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM TEN - DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this Item will be included in the Company's definitive Proxy Statement, which will be filed with the Securities and Exchange Commission in connection with the Company's 2003 Annual Meeting of Stockholders, and is incorporated herein by reference.

ITEM ELEVEN - EXECUTIVE COMPENSATION

The information required by this Item will be included in the Company's definitive Proxy Statement, which will be filed with the Securities and Exchange Commission in connection with the Company's 2003 Annual Meeting of Stockholders, and is incorporated herein by reference.

ITEM TWELVE - SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this Item will be included in the Company's definitive Proxy Statement, which will be filed with the Securities and Exchange Commission in connection with the Company's 2003 Annual Meeting of Stockholders, and is incorporated herein by reference.

ITEM THIRTEEN - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item will be included in the Company's definitive Proxy Statement, which will be filed with the Securities and Exchange Commission in connection with the Company's 2003 Annual Meeting of Stockholders, and is incorporated herein by reference.

ITEM FOURTEEN - CONTROLS AND PROCEDURES

The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective. There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

ITEM FIFTEEN - EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) Financial Statements and Financial Statement Schedules

(1) See Index to Consolidated Financial Statements on page F-1 at beginning of attached financial statements.

(2) The following Consolidated Financial Statement Schedule is included in Part IV of this report:

Schedule II – Valuation and Qualifying Accounts (17)

All other schedules are omitted because they are not applicable, or not required, or because the required information is included in the Consolidated Financial Statements or notes thereto.

(b) Form 8-K Reports

None

(c) Exhibits

(3)	(a)	Restated Certificate of Incorporation (2)
	(b)	By-Laws (1)
(4)	(a)	Specimen Certificate for Common Stock (1)
	(b)	Certificate of Designation of the Preferred Stock, Series A (3)
	(c)	Certificate of Designation of the Preferred Stock, Series B (8)
	(d)	Form of Rights Agreement dated as of March 9, 1995 between Registrant and American Stock Transfer & Trust Company (5)
	(e)	Certificate of Designation of the Preferred Stock, Series C (9)
(10)	(a)	1995 Stock Option Plan (6)
	(b)	Outside Director Stock Option Plan (6)
	(c)	Employment Agreement dated February 1, 1995, as amended March 12, 1998 and October 10, 2001, between Registrant and John C.K. Hui (4) (9) (13)
	(d)	1997 Stock Option Plan, as amended (10)
	(e)	1999 Stock Option Plan, as amended (11)
	(f)	Credit Agreement dated February 21, 2002 between Vasomedical, Inc. and Fleet National Bank (12)
	(g)	Agreement dated October 1, 2002 between the Registrant and Peter F. Cohn (14)
	(h)	Termination and Settlement Agreement dated October 21, 2002 between the Registrant and D. Michael Deignan (14)
	(i)	Employment Agreement dated October 28, 2002, and amended June 30, 2003, between the Registrant and Gregory D. Cash (14) (16)
	(j)	Amendment and Waiver to Credit Agreement dated October 18, 2002 between the Vasomedical, Inc. and Fleet National Bank (14)
	(k)	Amendment No. 2 and Waiver to Credit Agreement dated April 10, 2003 between the Registrant and Fleet National Bank (15)
(22)		Subsidiaries of the Registrant

Name	State of Incorporation	Percentage Owned by Company
Viromedics, Inc.	Delaware	61%
180 Linden Avenue Corp.	New York	100%

(23)		Consent of Grant Thornton LLP (17)
(31)		Certification Reports pursuant to Securities Exchange Act Rule 13a - 14 (17)
(32)		Certification Reports pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (17)

(1) Incorporated by reference to Registration Statement on Form S-18, No. 33-24095.
(2) Incorporated by reference to Registration Statement on Form S-1, No. 33-46377 (effective 7/12/94).
(3) Incorporated by reference to Report on Form 8-K dated November 14, 1994.
(4) Incorporated by reference to Report on Form 8-K dated January 24, 1995.
(5) Incorporated by reference to Registration Statement on Form 8-A dated May 12, 1995.
(6) Incorporated by reference to Notice of Annual Meeting of Stockholders dated December 5, 1995.
(7) Incorporated by reference to Report on Form 8-K dated June 25, 1997.
(8) Incorporated by reference to Report on Form 8-K dated April 30, 1998.
(9) Incorporated by reference to Report on Form 10-K for the fiscal year ended May 31, 1998.
(10) Incorporated by reference to Report on Form 10-K for the fiscal year ended May 31, 1999
(11) Incorporated by reference to Report on Form 10-K for the fiscal year ended May 31, 2000.
(12) Incorporated by reference to Report on Form 10-Q for the quarterly period ended February 28, 2002.
(13) Incorporated by reference to Report on Form 10-K for the fiscal year ended May 31, 2002.
(14) Incorporated by reference to Report on Form 10-Q for the quarterly period ended November 30, 2002.
(15) Incorporated by reference to Report on Form 10-Q for the quarterly period ended February 28, 2003.
(16) Incorporated by reference to Report on Form 8-K dated June 30, 2003.
(17) Filed herewith.

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on the 22nd day of August, 2003.

VASOMEDICAL, INC.

By: /s/ Gregory D. Cash
Gregory D. Cash
President, Chief Executive Officer and Director
(Principal Executive Officer)

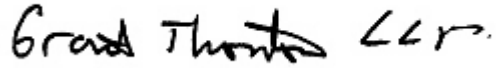
Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on August 22, 2003 by the following persons in the capacities indicated:

/s/ Alexander G. Bearn Alexander G. Bearn	Director
/s/ David S. Blumenthal David S. Blumenthal	Director
/s/ Gregory D. Cash Gregory D. Cash	President, Chief Executive Officer and Director (Principal Executive Officer)
/s/ Abraham E. Cohen Abraham E. Cohen	Chairman of the Board
/s/ Joseph A. Giacalone Joseph A. Giacalone	Chief Financial Officer (Principal Financial and Accounting Officer)
/s/ John C.K. Hui John C.K. Hui	Senior Vice President, Chief Technology Officer and Director
/s/ Photios T. Paulson Photios T. Paulson	Director
/s/ Kenneth W. Rind Kenneth W. Rind	Director
/s/ E. Donald Shapiro E. Donald Shapiro	Director
/s/ Anthony Viscusi Anthony Viscusi	Director
/s/ Forrest R. Whittaker Forrest R. Whittaker	Director
/s/ Martin Zeiger Martin Zeiger	Director

Exhibit 23

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

We have issued our report dated August 1, 2003, accompanying the consolidated financial statements and schedule included in the Annual Report of Vasomedical, Inc. and Subsidiaries on Form 10-K for the fiscal year ended May 31, 2003. We hereby consent to the incorporation by reference of said report in the Registration Statements of Vasomedical, Inc. and Subsidiaries on Forms S-3 (File No. 333-34044, effective April 12, 2000, File No. 333-60341, effective December 28, 1998, File No. 333-33319, effective August 21, 1997, and File No. 33-62329, effective September 18, 1995) and on Forms S-8 (File No. 333-86152, effective April 12, 2002, File No. 333-42692, effective August 1, 2000, File No. 333-85457, effective August 18, 1999, File No. 333-85455, effective August 18, 1999, File No. 333-60471, effective August 3, 1998, File No. 333-11579, effective September 6, 1996, File No. 333-11581, effective September 6, 1996, and File No. 333-11583, effective September 6, 1996).



GRANT THORNTON LLP

Melville, New York
August 1, 2003

Exhibit 31

CERTIFICATION PURSUANT TO SECURITIES EXCHANGE ACT RULE 13A-14

I, Gregory D. Cash, certify that:

1. I have reviewed this report on Form 10-K of Vasomedical, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15 and 15d-15e) for the registrant and have:
    a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    c. disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
    a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 22, 2003

/s/ Gregory D. Cash
Gregory D. Cash
President and Chief Executive Officer

CERTIFICATION PURSUANT TO SECURITIES EXCHANGE ACT RULE 13A-14

I, Joseph A. Giacalone, certify that:

1. I have reviewed this report on Form 10-K of Vasomedical, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15 and 15d-15e) for the registrant and have:
    a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    c. disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
    a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 22, 2003

/s/ Joseph A. Giacalone
Joseph A. Giacalone
Chief Financial Officer

Exhibit 32

CERTIFICATION OF PERIODIC REPORT

I, Gregory D. Cash, President and Chief Executive Officer of Vasomedical, Inc. (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

(1) the Annual Report on Form 10-K of the Company for the fiscal year ended May 31, 2003 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C 78m or 78o(d)); and

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

Dated: August 22, 2003

/s/ Gregory D. Cash
Gregory D. Cash
President and Chief Executive Officer

I, Joseph A. Giacalone, Chief Financial Officer of Vasomedical, Inc. (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

(1) the Annual Report on Form 10-K of the Company for the fiscal year ended May 31, 2003 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C 78m or 78o(d)); and

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

Dated: August 22, 2003

/s/ Joseph A. Giacalone
Joseph A. Giacalone
Chief Financial Officer

Vasomedical, Inc. and Subsidiaries

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

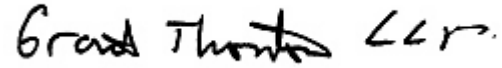
Stockholders and Board of Directors
Vasomedical, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Vasomedical, Inc. and Subsidiaries (the "Company") as of May 31, 2003 and 2002, and the related consolidated statements of earnings, changes in stockholders' equity and cash flows for each of the three fiscal years in the period ended May 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Vasomedical, Inc. and Subsidiaries as of May 31, 2003 and 2002, and the consolidated results of their operations and their consolidated cash flows for each of the three fiscal years in the period ended May 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

We have also audited Schedule II – Valuation and Qualifying Accounts for each of the three fiscal years in the period ended May 31, 2003. In our opinion, this schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.



GRANT THORNTON LLP

Melville, New York
August 1, 2003

Vasomedical, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

	May 31, 2003	May 31, 2002
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$5,222,847	$2,967,627
Accounts receivable, net of an allowance for doubtful accounts of $768,629 and $1,099,687 at May 31, 2003 and 2002, respectively	7,377,118	12,682,725
Inventories	3,439,567	4,902,121
Deferred income taxes	303,000	3,033,000
Financing receivables, net	264,090	633,786
Other current assets	268,231	627,243
Total current assets	16,874,853	24,846,502
PROPERTY AND EQUIPMENT, net	3,233,158	3,252,030
FINANCING RECEIVABLES, net	679,296	2,941,587
NOTES RECEIVABLE	-	512,329
DEFERRED INCOME TAXES	14,279,000	9,658,000
OTHER ASSETS	261,243	207,810
	$35,327,550	$41,418,258
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$2,667,861	$3,645,846
Current maturities of long-term debt and notes payable	108,462	1,046,445
Sales tax payable	461,704	732,362
Deferred revenues	789,118	272,000
Accrued warranty and customer support expenses	575,000	588,334
Accrued professional fees	207,793	362,083
Accrued commissions	586,823	973,998
Total current liabilities	5,396,761	7,621,068
LONG-TERM DEBT	1,177,804	1,072,716
ACCRUED WARRANTY COSTS	213,000	402,666
DEFERRED REVENUES	920,433	719,204
OTHER LIABILITIES	300,250	-
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Preferred stock, $.01 par value; 1,000,000 shares authorized; none issued and outstanding	-	-
Common stock, $.001 par value; 110,000,000 shares authorized; 57,822,023 and 57,309,120 shares at May 31, 2003 and 2002, respectively, issued and outstanding	57,822	57,309
Additional paid-in capital	50,623,316	50,116,148
Accumulated deficit	(23,361,836)	(18,570,853)
	27,319,302	31,602,604
	$35,327,550	$41,418,258

The accompanying notes are an integral part of these statements.

Vasomedical, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF EARNINGS

	Year ended May 31,		
	2003	2002	2001
Revenues			
Equipment sales	$22,850,391	$29,304,349	$26,912,373
Equipment rentals and services	1,973,228	1,339,113	595,965
Equipment sold under sales-type leases	-	4,187,009	-
	24,823,619	34,830,471	27,508,338
Cost of sales and services	9,251,221	10,538,731	7,910,359
Gross profit	15,572,398	24,291,740	19,597,979
Expenses			
Selling, general and administrative	13,714,913	13,686,958	11,634,965
Research and development	4,544,822	5,112,258	2,554,470
Provision for doubtful accounts	3,728,484	1,304,000	325,000
Interest and financing costs	186,574	98,140	48,294
Interest and other income, net	(176,724)	(249,722)	(201,992)
	21,998,069	19,951,634	14,360,737
EARNINGS (LOSS) BEFORE INCOME TAXES	(6,425,671)	4,340,106	5,237,242
Income tax (expense) benefit, net	1,634,688	(1,554,000)	6,457,108
NET EARNINGS (LOSS)	$(4,790,983)	$2,786,106	$11,694,350
Net earnings (loss) per common share			
- basic	$(.08)	$.05	$.21
- diluted	$(.08)	$.05	$.20
Weighted average common shares outstanding			
- basic	57,647,032	57,251,035	56,571,402
- diluted	57,647,032	59,468,092	59,927,199

The accompanying notes are an integral part of these statements.

Vasomedical, Inc. and Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

	Preferred stock		Common stock		Additional paid-in capital	Accum-ulated deficit	Total stock-holders' equity
	Shares	Amount	Shares	Amount			
Balance at June 1, 2000	-	-	55,921,330	$55,921	$40,939,158	$(33,051,309)	$7,943,770
Exercise of options and warrants			1,274,123	1,274	1,625,335		1,626,609
Stock options granted for services					35,000		35,000
Tax benefit of stock options and warrants exercised in the current and prior years					7,209,000		7,209,000
Net earnings						11,694,350	11,694,350
Balance at May 31, 2001	-	-	57,195,453	57,195	49,808,493	(21,356,959)	28,508,729
Exercise of options and warrants			113,667	114	199,529		199,643
Stock options granted for services					50,126		50,126
Tax benefit of stock options and warrants exercised in the current year					58,000		58,000
Net earnings						2,786,106	2,786,106
Balance at May 31, 2002	-	-	57,309,120	57,309	50,116,148	(18,570,853)	31,602,604
Exercise of options and warrants			512,903	513	234,487		235,000
Stock options granted for services					50,681		50,681
Tax benefit of stock options and warrants exercised in the current year					222,000		222,000
Net loss						(4,790,983)	(4,790,983)
Balance at May 31, 2003	-	-	57,822,023	$57,822	$50,623,316	$(23,361,836)	$27,319,302

The accompanying notes are an integral part of this statement.

Vasomedical, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended May 31,		
	2003	2002	2001
Cash flows from operating activities			
Net earnings (loss)	$(4,790,983)	$2,786,106	$11,694,350
Adjustments to reconcile net earnings (loss)			
to net cash provided by (used in) operating activities			
Depreciation and amortization	1,132,996	962,167	587,541
Provision for doubtful accounts, net of write-offs	2,209,101	904,687	145,000
Reserve for inventory obsolescence	100,000	30,000	150,000
Deferred income taxes	(1,669,000)	1,573,000	(6,597,000)
Stock options granted for services	50,681	50,126	35,000
Changes in operating assets and liabilities			
Accounts receivable	5,643,288	(3,855,663)	(5,043,939)
Financing receivables, net	118,126	(3,575,373)	-
Inventories	1,079,976	(1,694,198)	(4,460,572)
Other current assets	359,012	(183,356)	35,380
Other assets	(79,082)	(142,062)	(90,251)
Accounts payable, accrued expenses and other current liabilities	(1,286,324)	443,649	3,833,781
Other liabilities	311,813	384,265	389,605
	7,970,587	(5,102,758)	(11,015,455)
Net cash provided by (used in) operating activities	3,179,604	(2,316,652)	678,895
Cash flows from investing activities			
Issuance of notes	-	(500,000)	-
Purchase of property and equipment	(326,489)	(319,981)	(1,578,415)
Net cash used in investing activities	(326,489)	(819,981)	(1,578,415)
Cash flows from financing activities			
Proceeds from notes	238,071	2,141,667	1,141,667
Payments on notes	(1,070,966)	(1,164,173)	-
Restricted cash	-	1,141,667	(1,141,667)
Proceeds from exercise of options and warrants	235,000	199,643	1,626,609
Net cash provided by (used in) financing activities	(597,895)	2,318,804	1,626,609
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,255,220	(817,829)	727,089
Cash and cash equivalents - beginning of year	2,967,627	3,785,456	3,058,367
Cash and cash equivalents - end of year	$5,222,847	$2,967,627	$3,785,456
Non-cash investing and financing activities were as follows:			
Inventories transferred to property and equipment attributable to operating leases, net	$761,986	$1,130,020	$849,613
Supplemental disclosures:			
Interest paid	$186,574	$98,139	$48,294
Income taxes paid	$87,963	$304,263	$10,749

The accompanying notes are an integral part of these statements.

NOTE A - BUSINESS ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company was incorporated in Delaware in July 1987. During fiscal 1996, the Company commenced the commercialization of its EECP external counterpulsation system ("EECP"), a microprocessor-based medical device for the noninvasive, outpatient treatment of patients with cardiovascular disease. EECP is marketed worldwide to hospitals, clinics and other cardiac health care providers. To date, a significant portion of the Company's revenues have been generated from customers in the United States.

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

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiary and its inactive majority-owned subsidiary. Significant intercompany accounts and transactions have been eliminated.

Revenue Recognition

The Company recognizes revenue from the sale of its EECP system in the period in which the Company fulfills its obligations under the sale agreement, which includes delivery and customer acceptance. The sale of EECP systems are not subject to a right of return, other than for normal warranty matters, and the Company is not obligated for post-sale upgrades to these systems. The Company has also entered into lease agreements for its EECP system, generally for terms of one year or less, that are classified as operating leases. Revenues from operating leases are generally recognized, in accordance with the terms of the lease agreements, on a straight-line basis over the life of the respective leases. For certain operating leases in which payment terms are determined on a "fee-per-use" basis, revenues are recognized as incurred (i.e., as actual usage occurs). The cost of the EECP system utilized under operating leases is recorded as a component of property and equipment and is amortized to cost of sales over the estimated useful life of the equipment, not to exceed five years. There are no significant minimum rental commitments on these operating leases at May 31, 2003. Revenues from the sale of extended warranties on the EECP system are recognized on a straight-line basis over the life of the extended warranty, ranging from one year to four years. Deferred revenues relate to extended warranty fees that have been paid by customers prior to the performance of extended warranty services.

The Company follows SFAS No. 13, "Accounting For Leases," for its sales of EECP units under sales-type leases it presently has with one customer. In accordance with SFAS No. 13, the Company records the sale and financing receivable at the amount of the minimum lease payment, less unearned interest income, which is computed at the interest rate implicit in the lease, and executory costs, which are primarily related to product warranties on each unit sold. Unearned interest income is amortized to income in a manner that produces a constant rate of return on the investment in the sales-type lease. The cost of the EECP unit acquired by the customer is recorded as cost of sales in the same period that the sale is recorded.

Accounts Receivable/Financing Receivables

The Company's accounts receivable – trade are due from customers engaged in the provision of medical services. 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 60 days from shipment and are stated at amounts due from customers net of allowances for doubtful accounts, returns, term discounts and other allowances. Accounts outstanding longer than the contractual payment terms are considered past due. Estimates are used in determining our allowance for doubtful accounts based on our historical collections experience, current trends, credit policy and a percentage of our accounts receivable by aging category. In determining these percentages, we look at historical write-offs of our receivables. The Company also looks at the credit quality of its customer base as well as changes in its credit policies. The Company continuously monitors collections and payments from its customers. 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 it has in the past.

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

	May 31, 2003	May 31, 2002
Beginning balance	$1,099,687	$545,000
Provision for losses on accounts receivable	1,227,324	954,000
Direct write-offs	(1,543,382)	(399,313)
Recoveries	(15,000)	-
Ending balance	$768,629	$1,099,687

In addition, the Company periodically reviews and assesses the net realizability of its receivables arising from sales-type leases. If this review results in a lower estimate of the net realizable value of the receivable, an allowance for the unrealized amount is established in the period in which the estimate is changed. In the first quarter of fiscal 2003, management decided to write-off financing receivables under sales-type leases of approximately $2,558,000 as a result of significant uncertainties with respect to a major customer's ability to meet its financial obligations (Note C).

The changes in the Company's allowance for financing receivables, which primarily relates to balloon payments due at lease end, are as follows:

	May 31, 2003	May 31, 2002
Beginning balance	$718,879	
Provision for losses on financing receivables	-	$718,879
Direct write-offs	(473,885)	-
Ending balance	$244,994	$718,879

Concentrations of Credit Risk

The Company markets the EECP system principally to cardiologists, hospitals, clinics and other health care providers. The Company performs credit evaluations of its customers' financial condition and, as a consequence, believes that its receivable credit risk exposure is limited. Receivables are generally due 30 to 60 days from shipment. (See Notes C and D.)

For the years ended May 31, 2003, 2002 and 2001, no customer accounted for 10% or more of revenues. For the years ended May 31, 2003 and 2002, no customer accounted for 10% or more of accounts receivable. At May 31, 2003 and 2002, financing receivables were due from one and two customers, respectively.

The Company's revenues were derived from the following geographic areas during the years ended May 31:

	2003	2002	2001
Domestic (United States)	$23,701,619	$32,105,471	$26,093,388
Non-domestic	1,122,000	2,725,000	1,415,000
	$24,823,619	$34,830,471	$27,508,388

Inventories

The Company values inventory at the lower of cost or estimated market, cost being determined on a first-in, first-out basis. 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 our products as well as forecasts of future product demand.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is provided over the estimated useful lives of the assets, which range from three to thirty-nine years, on a straight-line basis. Accelerated methods of depreciation are used for tax purposes. Leasehold improvements are amortized over the useful life of the related leasehold improvement or the life of the related lease, whichever is less.

Warranty Costs

Equipment sold is generally covered by a warranty period of one year. The Company accrues a warranty reserve for estimated costs to provide warranty services when the equipment sale is recognized. The factors affecting the Company's warranty liability include the number of units sold and historical and anticipated rates of claims and costs per claim. The Company periodically assesses the adequacy of its warranty liability based on changes in these factors. Warranty reserves related to units sold under sales-type leases are recorded as executory costs, which serve to reduce the amount of financing receivables reported in the consolidated balance sheets. The Company records revenue on extended warranties on a straight-line basis over the term of the related warranty contracts. Service costs are expensed as incurred.

Deferred revenues related to extended warranties are $1,709,551 and $991,204 at May 31, 2003 and 2002, respectively.

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

	May 31, 2003	May 31, 2002
Beginning balance	$991,000	$1,055,000
Expense for new warranties issued	724,000	780,000
Warranty claims	(927,000)	(844,000)
Ending balance	$788,000	$991,000

Research and Development

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

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, the Company generally considers all expected future events other than an enactment of changes in the tax laws or rates. The deferred tax asset is continually evaluated for realizability. To the extent management's judgment regarding the realization of the deferred tax assets change, 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 management's estimate as to the realizability of the asset changed.

Deferred tax liabilities and assets shall be classified as current or non-current based on the classification of the related asset or liability for financial reporting. A deferred tax liability or asset that is not related to an asset or liability for financial reporting, including deferred tax assets related to carryforwards, shall be classified according to the expected reversal date of the temporary difference. The deferred tax asset recorded by the Company relates primarily to the realization of net operating loss carryforwards, of which the allocation of the current portion reflects the expected utilization of such net operating losses in fiscal 2004. Such allocation is based upon management's internal financial forecast for fiscal 2004 and may be subject to revision based upon actual results.

Shipping and Handling Costs

The Company includes all shipping and handling expenses incurred as a component of cost of sales. Amounts billed to customers related to shipping and handling costs are included as a component of sales.

Fair Value of Financial Instruments

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. The carrying amount of the financing receivables approximates fair value as the interest rates implicit in the leases approximate current market interest rates for similar financial instruments. The carrying amounts of notes payable and notes receivable approximate their fair values as the interest rates of these instruments approximate the interest rates available on instruments with similar terms and maturities.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant estimates and assumptions relate to estimates of collectibility of accounts receivable and financing receivables, the realizability of deferred tax assets, and the adequacy of inventory and warranty reserves. Actual results could differ from those estimates.

Net Earnings (Loss) Per Common Share

Basic earnings (loss) per share are based on the weighted average number of common shares outstanding without consideration of potential common stock. Diluted earnings (loss) per share are based on the weighted number of common and potential common shares outstanding. The 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. Options and warrants to purchase 6,190,753, 2,432,167 and 893,000 shares of common stock were excluded from the computation of diluted earnings (loss) per share as of May 31, 2003, 2002 and 2001, respectively, because the effect of their inclusion would be antidilutive.

The following table sets forth the computation of basic and diluted earnings (loss) per share:

	For the fiscal year ended May 31,		
	2003	2002	2001
Numerator:			
Basic and diluted earnings (loss)	$(4,790,983)	$2,786,106	$11,694,350
Denominator:			
Basic – weighted average shares	57,647,032	57,251,035	56,571,402
Stock options	-	1,624,744	2,270,094
Warrants	-	592,313	1,085,703
Diluted – weighted average shares	57,647,032	59,468,092	59,927,199
Earnings (loss) per share - basic	$(.08)	$.05	$.21
- diluted	$(.08)	$.05	$.20

Stock Compensation

The Company has four stock-based employee compensation plans, which are described more fully in Note H. The Company accounts for stock-based compensation using the intrinsic value method in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations ("APB No. 25") and has adopted the disclosure provisions of Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment of FASB Statement No. 123." under APB No. 25, when the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized. Accordingly, no compensation expense has been recognized in the consolidated financial statements in connection with employee stock option grants.

The following table illustrates the effect on net income and earnings per share had the Company applied the fair value recognition provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," to stock-based employee compensation.

	For the fiscal year ended May 31,		
	2003	2002	2001
Net earnings (loss), as reported	$(4,790,983)	$2,786,106	$11,694,350
Deduct: Total stock-based employee compensation expense determined under fair value-based method for all awards	(917,281)	(1,143,120)	(1,311,660)
Pro forma net earnings (loss)	$(5,708,264)	$1,642,986	$10,382,690
Earnings (loss) per share:			
Basic - as reported	$(.08)	$.05	$.21
Diluted - as reported	$(.08)	$.05	$.20
Basic - pro forma	$(.10)	$.03	$.18
Diluted - pro forma	$(.10)	$.03	$.17

Pro forma compensation expense may not be indicative of future disclosures because it does not take into effect pro forma compensation expense related to grants before 1995. For purposes of estimating the fair value of each option on the date of grant, the Company utilized the Black-Scholes option-pricing model.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

The fair value of the Company's stock-based awards was estimated assuming no expected dividends and the following weighted-average assumptions:

Fiscal year ended May 31,	2003	2002	2001
Expected life (years)	5	5	5
Expected volatility	89%	86%	80%
Risk-free interest rate	3.0%	3.9%	5.2%

Equity instruments issued to nonemployees in exchange for goods, fees and services are accounted for under the fair value-based method of SFAS No. 123.

Statements of Cash Flows

The Company considers highly liquid temporary cash investments with an original maturity of three months or less to be cash equivalents. Cash equivalents consist principally of money market funds. The market value of the cash equivalents approximates cost.

Impact of New Accounting Pronouncements

In August 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144"). SFAS No. 144 supersedes SFAS No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" and Accounting Principles Board Opinion No. 30, "Reporting Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." This statement retains the fundamental provisions of SFAS No. 121 for recognition and measurement of impairment, but amends the accounting and reporting standards for segments of a business to be disposed of. The new rules were effective for the Company on June 1, 2002. The adoption of SFAS No. 144 did not have a material effect on the Company's financial position or results of operations.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure" ("SFAS 148") which addresses financial accounting and reporting for recording expenses for the fair value of stock options. SFAS 148 provides alternative methods of transition for a voluntary change to fair value based method of accounting for stock-based employee compensation. Additionally, SFAS No. 148 requires more prominent and more frequent disclosures in financial statements about the effects of stock-based compensation. The provisions of this Statement are effective for fiscal years ending after December 15, 2002. The adoption of SFAS No. 148 did not have a material impact on the financial position or results of operations of the Company.

In April 2003, the FASB issued Statement of Financial Accounting Standards No. 149 ("SFAS No. 149"), "Amendment of Statement 133 on Derivative Instruments and Hedging Activities," which amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under SFAS No. 133. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003 except for the provisions that were cleared by the FASB in prior pronouncements. The Company is currently evaluating the effect of the adoption of SFAS No. 149 on its financial position and results of operations.

In May 2003, the FASB issued Statement of Financial Accounting Standards No. 150 ("SFAS No. 150"), "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." This statement establishes standards for how an issuer classifies and measures in its statement of financial position certain financial instruments with characteristics of both liabilities and equity. In accordance with the standard, financial instruments that embody obligations for the issuer are required to be classified as liabilities. This Statement shall be effective for financial instruments entered into or modified after May 31, 2003, and otherwise shall be effective at the beginning of the first interim period beginning after June 15, 2003. The Company is currently evaluating the effect of the adoption of SFAS No. 150 on its financial position and results of operations.

In November 2002, the FASB issued FASB Interpretation No. 45, “Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others” (“FIN 45”). FIN 45 requires that upon issuance of a guarantee, a guarantor must recognize a liability for the fair value of an obligation assumed under a guarantee. FIN 45 also requires additional disclosures by a guarantor in its interim and annual financial statements about the obligations associated with guarantees issued. The recognition provisions of FIN 45 are effective for any guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. The adoption of FIN 45 did not have a material impact on the Company’s financial position or results of operations.

In January 2003, the FASB issued FASB Interpretation No. 46 “Consolidation of Variable Interest Entities” (“FIN 46”). In general, a variable interest entity is a corporation, partnership, trust, or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. A variable interest entity often holds financial assets, including loans or receivables, real estate or other property. A variable interest entity may be essentially passive or it may engage in activities on behalf of another company. Until now, a company generally has included another entity in its consolidated financial statements only if it controlled the entity through voting interests. FIN 46 changes that by requiring a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. FIN 46's consolidation requirements apply immediately to variable interest entities created or acquired after January 31, 2003. The consolidation requirements apply to older entities in the first fiscal year or interim period beginning after June 15, 2003. Certain of the disclosure requirements apply in all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. The Company adopted FIN 46 effective January 31, 2003. The adoption of FIN 46 did not have a material impact on the Company's financial position or results of operations.

In November 2002, the Emerging Issues Task Force reached a consensus opinion of EITF 00-21, “Revenue Arrangements with Multiple Deliverables”. That consensus provides that revenue arrangements with multiple deliverables should be divided into separate units of accounting if certain criteria are met. The consideration of the arrangement should be allocated to the separate units of accounting based on their relative fair values, with different provisions if the fair value is contingent on delivery of specified items or performance conditions. Applicable revenue criteria should be considered separately for each separate unit of accounting. EITF 00-21 is effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003. Entities may elect to report the change as a cumulative effect adjustment in accordance with APB Opinion 20, “Accounting Changes.” The Company is currently evaluating the impact of the adoption of EITF 00-21 on its financial statements.

NOTE B - INVENTORIES

	May 31,	
Inventories consist of the following:	2003	2002
Raw materials	$1,374,241	$2,661,303
Work in progress	634,890	547,818
Finished goods	1,430,436	1,693,000
	$3,439,567	$4,902,121

NOTE C – RECEIVABLES FROM A MAJOR CUSTOMER

Under a multi-year sales contract, the Company sold equipment (EECP units) to a customer engaged in establishing a national network of EECP centers under sales-type leases aggregating revenues of $3,160,792 in fiscal 2002. No additional equipment has been sold to this customer during fiscal 2003. At August 31, 2002, financing receivables of approximately $2,558,000 from these sales-type lease transactions with this customer were outstanding. In addition, in March 2002, the Company provided a $500,000 unsecured loan to this customer. This financing was part of an aggregate $3.2 million credit facility, subject to certain conditions, executed by the customer with the Company and an unaffiliated lender in January 2002, under which the Company had no further financing obligation. The customer issued two notes to the Company of $250,000 each in connection with two EECP centers that bore interest at 18% per annum and were scheduled to mature in September 2005. Payments of principal and interest under these notes was scheduled to commence in April 2003 in varying amounts determined by a formula based upon cash generated, as defined in the loan agreement.

In late August 2002, this customer became delinquent in its scheduled monthly payments under its financing obligations to the Company. In September, the Company was notified by this customer of recent circumstances that precluded their ability to remain current under their financing obligations to the Company. Based on their situation, for which the customer was attempting to remedy through a recapitalization, significant uncertainties existed in connection with the ongoing viability of their business. Accordingly, management decided to write-off, in full, all funds due from this customer as of August 31, 2002, which aggregated approximately $3,000,000, including the present carrying amount of the underlying equipment due to the uncertainty of the Company's ability to repossess the equipment. During the second quarter of fiscal 2003, the customer ceased operations and the Company was able to successfully recover all of the units that it had sold under sales-type leases to the customer back into its finished goods inventory and recorded a bad debt recovery of $479,000, which represented the present carrying amount of the equipment. The Company has redeployed certain pieces of the equipment while other pieces have been returned to the Company's inventory for resale.

NOTE D – FINANCING RECEIVABLES

The following table shows the future minimum rentals receivable under sales-type leases and future minimum lease payments and obligations under capital leases in effect for the fiscal years ended May 31:

2004	$348,302
2005	835,288
2006	178,896
Total minimum lease payments	1,362,486
Less estimated executory costs	(46,661)
Net minimum lease payments	1,315,825
Less interest	(127,445)
Present value of minimum lease payments	1,188,380
Less valuation allowance	(244,994)
Net financing receivables	943,386
Less current portion	(264,090)
Long-term portion	$679,296

These sales-type leases are for a term of three years. The annual minimum lease payments are subject to adjustment based on usage of the leased units in accordance with the provisions of the lease agreements.

NOTE E - PROPERTY AND EQUIPMENT

	May 31,	
Property and equipment is summarized as follows:	2003	2002
Land	$200,000	$200,000
Building and improvements	1,376,106	1,366,855
Office, laboratory and other equipment	1,111,827	794,801
EECP units under operating leases or under loan for clinical trials	2,617,624	2,174,000
Furniture and fixtures	148,164	148,164
Leasehold improvements	117,803	117,803
	5,571,524	4,801,623
Less accumulated depreciation and amortization	(2,338,366)	(1,549,593)
	$3,233,158	$3,252,030

NOTE F – LONG-TERM DEBT AND LINE OF CREDIT AGREEMENT

	May 31,	
	2003	2002
Revolving credit agreement (a)		$1,000,000
Term loans (b) (c)	$1,286,266	1,119,161
	1,286,266	2,119,161
Less current portion	(108,462)	(1,046,445)
	$1,177,804	$1,072,716

(a) In February 2002, the Company renegotiated a secured revolving credit line with its existing bank. The credit line provided for borrowings up to $15,000,000, based upon eligible accounts receivable, as defined therein, at the Libor Rate plus 150 basis points (3.4% at May 31, 2002). At May 31, 2002, approximately $3,600,000 of the line was available of which there were outstanding borrowings of $1,000,000. Under the terms of the agreement, which expires in February 2005, the Company is required to meet certain quarterly covenants, including leverage ratio, liquidity, capital expenditures, minimum net income, minimum interest coverage and minimum tangible net worth. In addition, the line is secured by substantially all the tangible assets of the Company. In October 2002, the credit line was further amended to provide for borrowings up to $5,000,000 ($2,000,000, at any time that consolidated net income for the immediately preceding three-month period is less than $1), primarily based upon eligible accounts receivable, as defined therein, at the Libor Rate plus 200 basis points or the published Prime Rate plus 50 basis points. In April 2003, the agreement was further amended to allow for borrowings absent compliance with the financial covenants as long as such eligible borrowings are collateralized by cash. In April 2003, the Company repaid all outstanding borrowings under the agreement instead of maintaining restricted cash balances. At May 31, 2003, the Company did not meet the minimum interest coverage and tangible net worth covenants and future compliance with each of these covenants in the near term is not certain.

(b) The Company purchased its headquarters and warehouse facility and secured notes of $641,667 and $500,000, respectively, under two programs sponsored by New York State. These notes, which bear interest at 7.8% and 6%, respectively, are payable in monthly installments consisting of principal and interest payments over fifteen-year terms, expiring in September 2016 and January 2017, respectively, and are secured by the building. At May 31, 2003 and 2002, $1,072,717 and $1,119,161, respectively, were outstanding in connection with these notes.

(c) In fiscal 2003, the Company financed the cost and implementation of a management information system and secured several notes, aggregating approximately $238,000. The notes, which bear interest at rates ranging from 7.5% through 8.7%, are payable in monthly installments consisting of principal and interest payments over four-year terms, expiring at various times between August and October 2006. At May 31, 2003, $213,549 was outstanding in connection with these notes.

Maturities of long-term debt are as follows at May 31, 2003:

2004	$108,462
2005	117,019
2006	126,263
2007	83,506
2008	65,769
Thereafter	785,247
	$1,286,266

NOTE G - STOCKHOLDERS' EQUITY AND WARRANTS

In fiscal 2001, warrants to purchase 776,212 shares of common stock were exercised, aggregating $1,143,000 in proceeds to the Company. In fiscal 2002, warrants to purchase 15,000 shares of common stock were exercised, aggregating $31,200 in proceeds to the Company. In fiscal 2003, warrants to purchase 500,000 shares of common stock were exercised, aggregating $225,000 in proceeds to the Company.

The outstanding warrants expire in October 2006. Warrant activity for the years ended May 31, 2001, 2002 and 2003 is summarized as follows:

	Employees	Consultants	Total	Price Range
Balance at June 1, 2000	750,000	868,712	1,618,712	$.45 - $2.08
Exercised	(250,000)	(526,212)	(776,212)	$.45 - $2.08
Balance at May 31, 2001	500,000	342,500	842,500	$.45 - $2.08
Exercised		(15,000)	(15,000)	$2.08
Balance at May 31, 2002	500,000	327,500	827,500	$.45 - $2.08
Exercised	(500,000)		(500,000)	$.45
Canceled		(127,500)	(127,500)	$2.08
Balance at May 31, 2003	-	200,000	200,000	$.91
Number of shares exercisable	-	200,000	200,000	$.91

NOTE H - OPTION PLANS

1995 Stock Option Plan

In May 1995, the Company's stockholders approved the 1995 Stock Option Plan for officers and employees of the Company, for which the Company reserved an aggregate of 1,500,000 shares of common stock. In December 1997, the Company's Board of Directors terminated the 1995 Stock Option Plan with respect to new option grants.

Outside Director Stock Option Plan

In May 1995, the Company's stockholders approved an Outside Director Stock Option Plan for non-employee directors of the Company, for which the Company reserved an aggregate of 300,000 shares of common stock. In December 1997, the Company's Board of Directors terminated the Outside Director Stock Option Plan with respect to new option grants.

1997 Stock Option Plan

In December 1997, the Company's stockholders approved the 1997 Stock Option Plan (the "1997 Plan") for officers, directors, employees and consultants of the Company, for which the Company has reserved an aggregate of 1,800,000 shares of common stock. The 1997 Plan provides that it will be administered by a committee of the Board of Directors of the Company and that the committee will have full authority to determine the identity of the recipients of the options and the number of shares subject to each option. Options granted under the 1997 Plan may be either incentive stock options or non-qualified stock options. The option price shall be 100% of the fair market value of the common stock on the date of the grant (or in the case of incentive stock options granted to any individual principal stockholder who owns stock possessing more than 10% of the total combined voting power of all 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. The term for which options may be granted under the 1997 Plan expires August 6, 2007.

In January 1999, the Company’s Board of Directors increased the number of shares authorized for issuance under the 1997 Plan by 1,000,000 shares to 2,800,000 shares. At May 31, 2003, there were 173,168 shares available for future grants under the 1997 Plan.

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 it will be administered by a committee of the Board of Directors of the Company 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. The term for which options may be granted under the 1999 Plan expires July 12, 2009. 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 January 2001, the Board of Directors granted stock options under the 1999 Plan to a consultant to purchase 25,000 shares of common stock at an exercise price of $3.81 per share (which represented the fair market value of the underlying common stock at the time of the respective grant). The Company charged $60,000 to operations over the one-year period in which services were rendered. In December 2001, the Board of Directors granted stock options under the 1999 Plan to a consultant to purchase 25,000 shares of common stock at an exercise price of $2.95 per share (which represented the fair market value of the underlying common stock at the time of the respective grant). These stock options were fair-valued at $50,250 which the Company charged to operations over the one-year period in which services were rendered. During fiscal 2003, 2002 and 2001, the Company charged $25,000, $50,000 and $35,000, respectively, to operations for these grants.

In fiscal 2003, the Board of Directors granted stock options under the 1999 Plan to directors and employees to purchase an aggregate of 1,175,000 shares of common stock, at exercise prices ranging from $.71 to $1.67 per share (which represented the fair market value of the underlying common stock at the time of the respective grants). At May 31, 2003, there were 1,265,500 shares available for future grants under the 1999 Plan.

Activity under all the plans for the years ended May 31, 2001, 2002 and 2003 is summarized as follows:

		Outstanding Options		
	Shares Available for Grant	Number of Shares	Exercise Price per Share	Weighted Average Exercise Price
Balance at June 1, 2000	905,168	4,143,734	$.75 - $5.15	$1.76
Shares authorized	1,000,000			
Options granted	(798,000)	798,000	$2.66 - $5.00	$4.00
Options exercised	-	(497,911)	$.75 - $3.44	$.97
Options canceled	111,000	(111,000)	$.75 - $3.47	$1.90
Balance at May 31, 2001	1,218,168	4,332,823	$.78 - $5.15	$2.26
Shares authorized	2,000,000			
Options granted	(1,084,100)	1,084,100	$1.78 - $4.02	$3.61
Options exercised	-	(98,667)	$.88 - $2.44	$1.71
Options canceled	125,333	(125,333)	$.88 - $5.00	$3.90
Balance at May 31, 2002	2,259,401	5,192,923	$.78 - $5.15	$2.51
Options granted	(1,175,000)	1,175,000	$.71 - $1.67	$.95
Options exercised	-	(12,903)	$.78	$.78
Options canceled	354,267	(364,267)	$.88 - $5.15	$3.77
Balance at May 31, 2003	1,438,668	5,990,753	$.71 - $5.15	$2.13

The following table summarizes information about stock options outstanding and exercisable at May 31, 2003

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at May 31, 2003	Weighted Average Remaining Contractual Life (yrs.)	Weighted Average Exercise Price	Number Exercisable at May 31, 2003	Weighted Average Exercise Price
$.71 - $1.00	2,101,876	6.9	$0.90	1,021,876	$0.86
$1.22 - $1.78	973,250	6.5	$1.37	673,250	$1.40
$1.91 - $2.78	820,127	5.1	$2.00	778,460	$1.97
$2.89 - $4.28	1,892,500	6.5	$3.66	1,186,500	$3.62
$4.59 - $5.15	203,000	7.0	$4.83	153,667	$4.87
	5,990,753	6.5	$2.13	3,813,753	$2.20

The weighted-average fair value of options granted during fiscal 2003, 2002 and 2001 was $.95, $2.50 and $2.73, respectively. At May 31, 2003, there were approximately 11,823,000 remaining authorized shares of common stock after reserves for all stock option plans, stock warrants and shareholders' rights.

NOTE I - INCOME TAXES

In fiscal 2003, the Company recorded a benefit for income taxes of $1,634,688, inclusive of $256,312 in current tax expense and a deferred tax benefit of $1,891,000. In fiscal 2002, the Company recorded an expense for income taxes of $1,554,000, inclusive of $39,000 in current tax expense and a deferred tax expense of $1,515,000. In fiscal 2001, the Company recorded a benefit for income taxes of $6,457,108, inclusive of $139,892 in current tax expense principally resulting from the federal alternative minimum tax and a deferred tax benefit of $6,597,000 resulting principally from the change in the valuation allowance.

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

	May 31,		
	2003	2002	2001
Deferred tax assets			
Net operating loss and other carryforwards	$13,368,000	$11,344,000	$13,422,000
Accrued compensation	153,000	-	-
Bad debts	244,000	493,000	178,000
Other	1,439,000	854,000	606,000
Total gross deferred tax assets	15,204,000	12,691,000	14,206,000
Valuation allowance	(622,000)	-	-
Net deferred tax assets	$14,582,000	$12,691,000	$14,206,000

The fiscal 2003 deferred tax benefit does not include the tax benefit associated with the current exercises of stock options and warrants, aggregating $222,000, which was credited directly to additional paid-in capital in the current year.

The fiscal 2002 tax expense does not include the tax benefit associated with the current exercises of stock options and warrants, aggregating $58,000, which was credited directly to additional paid-in capital in such year.

The fiscal 2001 deferred tax benefit does not include the tax benefit associated with the current and prior years' exercises of stock options and warrants, aggregating $7,209,000, which was credited directly to additional paid-in capital in such year.

As of May 31, 2001, management determined that no valuation allowance was required based upon its financial performance, which was positively affected by the availability of Medicare coverage and reimbursement and the increasing acceptance by the medical community of the Company's cost-effective and noninvasive therapy system. In addition, the Company's assessment of the cardiovascular disease marketplace, which includes favorable patient demographics and unmet clinical needs, provides a substantial economic opportunity and anticipated future earnings stream with respect to current and prospective clinical applications for its products. Ultimate realization of the deferred tax assets is dependent upon the Company generating sufficient taxable income prior to the expiration of the loss carryforwards. Although realization is not assured, management believes it is more likely than not that the net deferred tax assets will be realized. The amount of the deferred tax assets considered realizable, however, could be reduced in the future if estimates of future taxable income during the carryforward period are reduced.

At May 31, 2003, the Company had net operating loss carryforwards for Federal income tax purposes of approximately $39,315,000, expiring at various dates from 2005 through 2021.

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

	2003		2002		2001	
	Amount	%	Amount	%	Amount	%
Federal statutory rate	$(2,185,000)	(34.0)	$1,475,000	34.0	$1,781,000	34.0
State taxes, net	34,000	.5	56,000	1.3	65,000	1.2
Permanent differences	33,320	.5	23,000	.5	67,300	1.3
Utilization of net operating loss	-		-		(1,781,000)	(34.0)
Change in valuation allowance relating to operations	622,000	9.7	-		(6,719,000)	(128.3)
Other	(139,008)	(2.1)	-		129,592	2.5
	$(1,634,688)	(25.4)	$1,554,000	35.8	$(6,457,108)	(123.3)

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 would be limited in the event of an ownership change.

NOTE J - COMMITMENTS AND CONTINGENCIES

Employment Agreements

In October 2002, the Company and its Chief Executive Officer entered into a termination and consulting agreement, whereby the employment agreement that had previously existed between the parties was terminated. As a result of this termination, the Company will pay to the former employee a severance payment of $240,000 in equal monthly installments through October 31, 2003. The Company recorded a charge to operations during the three-month period ended November 30, 2002 to reflect this obligation. The consulting agreement, which expires on December 31, 2003, provides for a consulting fee of $40,000 to be paid in equal monthly installments over the term of the agreement. Further, the consulting agreement provides for the continued vesting of stock options that had been previously granted to the employee which would have otherwise vested during the term of the agreement. The terms of the original option grants provided for vesting throughout the period that the former employee was employed by or provided services to the Company. There were no other modifications to any of the previously granted stock options. The Company measured the fair value of the unvested options as of the date of the termination and consulting agreement and has recorded a charge to operations of approximately $25,000 as a result of this modification.

In October 2002, the Company entered into an employment agreement with its new President and Chief Operating Officer. The agreement, which expires in October 2004, provides for certain settlement benefits, including a lump-sum payment of twelve months of base salary in the event of a change of control, as defined, or a termination payment in an amount equal to six months of base salary in the event of termination without cause, as defined. Such agreement was modified on June 30, 2003 reflecting this employee's promotion to President and Chief Executive Officer.

The approximate aggregate minimum compensation obligation under active employment agreements at May 31, 2003 are summarized as follows:

Fiscal Year	Amount
2004	$398,000
2005	204,000
	$602,000

Leases

The Company leases additional warehouse space under two noncancelable operating leases, of which one expires on October 31, 2003 and the other on September 30, 2006. Rent expense was $99,000, $85,000 and $69,000 in fiscal 2003, 2002 and 2001, respectively.

Approximate aggregate minimum annual obligations under these lease agreements and other equipment leasing agreements at May 31, 2003 are summarized as follows:

Fiscal Year	Amount
2004	$61,000
2005	42,000
2006	37,000
2007	12,000
	$152,000

Litigation

In June 2001, an action was commenced in the New York Supreme Court, Nassau County, against the Company by the former holder of a warrant to purchase 100,000 shares of the Company's stock seeking undefined damages based upon a claim that the Company breached an agreement to register the common shares underlying the warrant at the "earliest practicable date" after due demand by the warrant holder had been made. In October 2002, the Company settled this matter for $600,000 through the execution of an agreement that enables the Company to satisfy this obligation over a four-year period ($200,000 in fiscal 2003, $100,000 in fiscal 2004, $133,000 each in fiscal years 2005 and 2006 and $34,000 in fiscal 2007). Accordingly, the Company recorded a $600,000 charge to operations in fiscal 2003. In December 2002, the Company paid $200,000 to the warrant holder pursuant to the terms of the settlement agreement.

In or about late June 2002, the Company was notified by a letter from the domestic counsel for Foshan Life Sciences Co. Ltd. ("FLSC"), a joint venture comprised of a Florida company and Vamed Medical Instrument Company Limited ("Vamed"), a Chinese company with whom the Company had an agreement to manufacture the Company's EECP Model MC2 system, that FLSC was initiating an arbitration proceeding before the Hong Kong International Arbitration Council ("HKIAC") to recover compensatory and punitive damages in excess of $1,000,000 and injunctive relief based upon claims of breach of the manufacturing agreement, tortious interference and misappropriation of confidential information and trade secrets. Although possessing several substantive defenses to these claims, the Company initially has challenged the HKIAC's right to hear and determine the dispute on the ground that FLSC is neither a legitimate nor recognized party to the manufacturing agreement which provides for such arbitration and, therefore, is not entitled to enforce the same. The Company demanded on July 3, 2002 that FLSC deposit with the HKIAC security to cover the Company's costs of arbitration. To date, FLSC has neither responded to the Company's demand for security nor apparently filed a formal statement of claim with the HKIAC.

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 fiscal 2003 and 2002, the Company made discretionary contributions of approximately $35,000 and $20,000, respectively, to match a percentage of employee contributions. No Company contributions were made for the fiscal year ended May 31, 2001.

Purchase Commitments

At May 31, 2003, the Company had no outstanding purchase commitments with FLSC, a Chinese company that has assumed the operational activities of Vamed, another Chinese company, for the manufacture of its earlier-generation EECP Model MC2 system. At May 31, 2002, such outstanding commitments were $324,000. Requirements for this earlier-generation system are expected to be minimal, if any, and the Company believes that FLSC will be able to meet any future needs for this system.

NOTE K – SUMMARY OF QUARTERLY FINANCIAL DATA (UNAUDITED)

The following is a summary of the Company's unaudited quarterly operating results for the years ended May 31, 2003 and 2002.

	Three months ended							
(in 000s except Earnings (loss) per share data)	May 31, 2003	Feb. 28, 2003	Nov. 30, 2002 (c)	Aug. 31, 2002 (b)	May 31, 2002 (a)	Feb. 28, 2002 (a)	Nov. 30, 2001 (a)	Aug. 31, 2001 (a)
Revenues	$6,488	$7,153	$6,644	$4,539	$8,641	$8,019	$8,544	$9,626
Gross Profit	$3,970	$4,383	$4,640	$2,580	$6,083	$5,382	$5,980	$6,847
Net Earnings (Loss)	$14	$26	$(597)	$(4,234)	$440	$98	$1,005	$1,243
Earnings (loss) per share – basic	$.00	$.00	$(.01)	$(.07)	$.01	$.00	$.02	$.02
- diluted	$.00	$.00	$(.01)	$(.07)	$.01	$.00	$.02	$.02
Weighted average common shares outstanding –								
- basic	57,817	57,809	57,658	57,478	57,309	57,281	57,207	57,198
- diluted	58,453	58,078	57,658	57,478	59,256	59,469	59,364	59,776

(a) Revenues were favorably impacted from equipment sold under sales-type leases in fiscal 2002, while no such sales-type leases were offered in fiscal 2003. Revenues from equipment sold under sales-type leases for the first through fourth quarters of fiscal 2002 were $1,830, $754, $880 and $723, respectively.

(b) Net Loss for the first quarter of fiscal 2003 was adversely affected by the write-off of approximately $3,000 related to significant uncertainties related to the ability of a major customer to satisfy its financial obligations to the Company (Note C).

(c) Net Loss for the second quarter of fiscal 2003 was adversely affected by the settlement of litigation of $600 and approximately $300 in severance obligations, principally to the Company's former Chief Executive Officer.

Vasomedical, Inc. and Subsidiaries

Schedule II – Valuation and Qualifying Accounts

Column A	Column B	Column C		Column D	Column E
		Additions			
	Balance at beginning of period	(1) Charged to costs and expenses	(2) Charged to other accounts	Deductions	Balance at end of period
Allowance for doubtful accounts					
Year ended May 31, 2003	$1,099,687	$1,227,324		(a) $1,528,382	$768,629
Year ended May 31, 2002	$545,000	$954,000		$399,313	$1,099,687
Year ended May 31, 2001	$400,000	$325,000		$180,000	$545,000
Valuation Allowance- Financing Receivables					
Year ended May 31, 2003	$718,879			$473,885	$244,994
Year ended May 31, 2002	$-	$718,879			$718,879
Reserve for obsolete inventory					
Year ended May 31, 2003	$180,000	$100,000			$280,000
Year ended May 31, 2002	$150,000	$30,000			$180,000
Year ended May 31, 2001	$-	$150,000			$150,000
Valuation Allowance – Deferred Tax Asset					
Year ended May 31, 2003	$-	$622,000			$622,000
Year ended May 31, 2002	$-				$-
Year ended May 31, 2001	$14,665,000			$14,665,000	$-
Provision for warranty obligations					
Year ended May 31, 2003	$991,000	$724,000		$927,000	$788,000
Year ended May 31, 2002	$1,055,000	$780,000		$844,000	$991,000
Year ended May 31, 2001	$387,000	$1,250,000		$582,000	$1,055,000

(a) accounts receivable written off, net of $15,000 in recoveries in fiscal 2003

C O R P O R A T E D I R E C T O R Y

Senior Management

Gregory D. Cash
President and Chief Executive Officer

John C. K. Hui, PhD
Senior Vice President and
Chief Technology Officer

Thomas W. Fry
Chief Financial Officer

Harold Kaefer
Vice President,
Engineering and Manufacturing

Wayne F. Stewart
Vice President, Domestic Sales

Thomas R. Varricchione
Vice President,
Clinical and Regulatory Affairs

Brian M. Weber
Vice President, Marketing

Board of Directors

Abraham E. Cohen
Chairman, Vasomedical Inc.
Former President of Merck International and Senior Vice President of Merck and Co., Inc.

Alexander G. Bearn, MD
Former Executive Officer of the American Philosophical Society
Adjunct Professor, Rockefeller University
Former Chairman of the Department of Medicine of Cornell University Medical College and Senior Vice President of Medical and Scientific Affairs of Merck International

David S. Blumenthal, MD
Practicing cardiologist affiliated with Weill-Cornell Medical College

Gregory D. Cash
President and Chief Executive Officer,
Vasomedical Inc.

John C. K. Hui, PhD
Senior Vice President and
Chief Technology Officer, Vasomedical Inc.

Photios T. Paulson
Former CEO, Vasomedical Inc.
Former Vice President,
bioMérieux N.A. Inc.
Former Chairman, bioMérieux Vitek, Inc.

Kenneth W. Rind, PhD
Founding General Partner of
Israel Infinity Venture Capital Fund and
Oxford Venture Funds

E. Donald Shapiro
Dean Emeritus
Former Dean, New York Law School

Anthony Viscusi
President and CEO, Vasomedical Inc.
(Retired)

Forrest R. Whittaker
President and Chief Operating Officer,
Teleflex
Medical Division, Teleflex, Inc.
Former President, Respiratory Group
of Tyco Healthcare

Martin Zeiger
Independent Consultant
Former Senior Vice President,
Strategic Business Development,
Barr Laboratories, Inc.
Former General Counsel, Barr Laboratories

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David R. Holmes Jr., MD, FACC
Consultant,
Cardiovascular Disease Division
Director,
Cardiac Catheterization Laboratory
Professor of Medicine
Mayo Clinic and Foundation
St. Mary's Hospital

General Counsel

Beckman, Lieberman & Barandes LLP
Attorneys at Law
100 Jericho Quadrangle
Jericho, New York 11753

Auditors

Grant Thornton LLP
Certified Public Accountants
445 Broadhollow Road
Melville, New York 11747

Registrar and Transfer Agent

American Stock Transfer and Trust Company
59 Maiden Lane
New York, New York 10038
800.937.5449

Other Available Information

A copy of the Company's Annual Report on Form 10-K for the year ended May 31, 2003, as filed with the Securities and Exchange Commission, is available without charge to interested stockholders upon a written request to:

Vasomedical Inc.
Attn.: Investor Relations
180 Linden Avenue
Westbury, New York 11590

Or visit our website at
www.vasomedical.com

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Vasomedical Inc. EECP®

180 Linden Avenue
Westbury, NY 11590
516•997•4600
www.vasomedical.com