

# SECURITIES & EXCHANGE COMMISSION EDGAR FILING

**VASO Corp**

**Form: 10-Q**

**Date Filed: 2017-11-14**

Corporate Issuer CIK: 839087

**FORM 10-Q**

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended September 30, 2017

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 0-18105



**VASO CORPORATION**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

11-2871434  
(IRS Employer Identification Number)

137 Commercial Street, Suite 200, Plainview, New York 11803  
(Address of principal executive offices)

Registrant's Telephone Number

(516) 997-4600

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company.

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer  Smaller Reporting Company  Emerging Growth Company

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

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

Number of Shares Outstanding of Common Stock, \$.001 Par Value, at November 9, 2017 – 175,390,196

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## PART I – FINANCIAL INFORMATION

## ITEM 1 - FINANCIAL STATEMENTS

## Vaso Corporation and Subsidiaries

CONDENSED CONSOLIDATED BALANCE SHEETS  
(in thousands, except share and per share data)

	September 30, 2017 (unaudited)	December 31, 2016
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 5,522	\$ 7,087
Accounts and other receivables, net of an allowance for doubtful accounts and commission adjustments of \$4,710 at September 30, 2017 and \$4,159 at December 31, 2016	10,944	12,741
Receivables due from related parties	19	18
Inventories, net	2,658	2,395
Deferred commission expense	2,899	1,917
Prepaid expenses and other current assets	1,138	925
<b>Total current assets</b>	<b>23,180</b>	<b>25,083</b>
<b>PROPERTY AND EQUIPMENT</b> , net of accumulated depreciation of \$4,723 at September 30, 2017 and \$3,835 at December 31, 2016	4,777	4,021
<b>GOODWILL</b>	17,407	17,280
<b>INTANGIBLES</b> , net	5,452	5,996
<b>OTHER ASSETS</b> , net	3,898	5,001
	<b>\$ 54,714</b>	<b>\$ 57,381</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 5,074	\$ 5,219
Accrued commissions	1,399	2,139
Accrued expenses and other liabilities	4,617	5,275
Sales tax payable	773	718
Income taxes payable	42	30
Deferred revenue - current portion	12,651	7,628
Notes payable and capital lease obligations - current portion	4,142	4,245
Notes payable - related parties - current portion	127	-
Due to related party	311	396
<b>Total current liabilities</b>	<b>29,136</b>	<b>25,650</b>
<b>LONG-TERM LIABILITIES</b>		
Notes payable and capital lease obligations	4,858	4,935
Notes payable - related parties	380	648
Deferred revenue	9,427	11,776
Deferred tax liability	292	112
Other long-term liabilities	1,114	1,349
<b>Total long-term liabilities</b>	<b>16,071</b>	<b>18,820</b>
<b>COMMITMENTS AND CONTINGENCIES (NOTE M)</b>		
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock, \$.01 par value; 1,000,000 shares authorized; nil shares issued and outstanding at September 30, 2017 and December 31, 2016	-	-
Common stock, \$.001 par value; 250,000,000 shares authorized; 175,387,306 and 173,811,533 shares issued at September 30, 2017 and December 31, 2016, respectively; 165,079,219 and 163,503,446 shares outstanding at September 30, 2017 and December 31, 2016, respectively	175	174
Additional paid-in capital	63,269	62,856
Accumulated deficit	(51,724)	(47,790)
Accumulated other comprehensive loss	(213)	(329)
Treasury stock, at cost, 10,308,087 shares at September 30, 2017 and December 31, 2016	(2,000)	(2,000)
<b>Total stockholders' equity</b>	<b>9,507</b>	<b>12,911</b>
	<b>\$ 54,714</b>	<b>\$ 57,381</b>

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

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME  
(Unaudited)  
(in thousands, except per share data)

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
<b>Revenues</b>				
Managed IT systems and services	\$ 10,827	\$ 9,679	\$ 31,438	\$ 29,530
Professional sales services	6,305	6,583	18,181	20,289
Equipment sales and services	909	1,282	2,649	3,481
Total revenues	<u>18,041</u>	<u>17,544</u>	<u>52,268</u>	<u>53,300</u>
<b>Cost of revenues</b>				
Cost of managed IT systems and services	6,311	5,550	18,526	17,436
Cost of professional sales services	1,386	1,325	3,946	4,318
Cost of equipment sales and services	316	519	900	1,271
Total cost of revenues	<u>8,013</u>	<u>7,394</u>	<u>23,372</u>	<u>23,025</u>
Gross profit	<u>10,028</u>	<u>10,150</u>	<u>28,896</u>	<u>30,275</u>
<b>Operating expenses</b>				
Selling, general and administrative	10,412	9,531	31,349	28,981
Research and development	235	117	716	369
Total operating expenses	<u>10,647</u>	<u>9,648</u>	<u>32,065</u>	<u>29,350</u>
Operating (loss) income	<u>(619)</u>	<u>502</u>	<u>(3,169)</u>	<u>925</u>
<b>Other income (expense)</b>				
Interest and financing costs	(166)	(162)	(506)	(474)
Interest and other income, net	63	91	55	140
Total other expense, net	<u>(103)</u>	<u>(71)</u>	<u>(451)</u>	<u>(334)</u>
(Loss) income before income taxes	(722)	431	(3,620)	591
Income tax expense	(94)	(103)	(314)	(154)
Net (loss) income	<u>(816)</u>	<u>328</u>	<u>(3,934)</u>	<u>437</u>
<b>Other comprehensive (loss) income</b>				
Foreign currency translation gain (loss)	25	34	116	(58)
Comprehensive (loss) income	<u>\$ (791)</u>	<u>\$ 362</u>	<u>\$ (3,818)</u>	<u>\$ 379</u>
<b>(Loss) income per common share</b>				
- basic and diluted	<u>\$ (0.00)</u>	<u>\$ 0.00</u>	<u>\$ (0.02)</u>	<u>\$ 0.00</u>
<b>Weighted average common shares outstanding</b>				
- basic	<u>163,307</u>	<u>160,268</u>	<u>161,817</u>	<u>158,730</u>
- diluted	<u>163,307</u>	<u>161,675</u>	<u>161,817</u>	<u>159,479</u>

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

Vaso Corporation and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
(in thousands)

	Common Stock		Treasury Stock		Additional Paid-in- Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
<b>Balance at December 31, 2015</b>	<b>168,750</b>	<b>\$ 168</b>	<b>(10,308)</b>	<b>\$ (2,000)</b>	<b>\$ 62,263</b>	<b>\$ (48,610)</b>	<b>\$ (80)</b>	<b>\$ 11,741</b>
Share-based compensation	3,949	4	-	-	424	-	-	428
Shares issued to settle liability	1,113	2	-	-	176	-	-	178
Shares not issued for employee tax liability	-	-	-	-	(7)	-	-	(7)
Foreign currency translation loss	-	-	-	-	-	-	(249)	(249)
Net income	-	-	-	-	-	820	-	820
<b>Balance at December 31, 2016</b>	<b>173,812</b>	<b>\$ 174</b>	<b>(10,308)</b>	<b>\$ (2,000)</b>	<b>\$ 62,856</b>	<b>\$ (47,790)</b>	<b>\$ (329)</b>	<b>\$ 12,911</b>
Share-based compensation	1,576	1	-	-	416	-	-	417
Shares not issued for employee tax liability	-	-	-	-	(3)	-	-	(3)
Foreign currency translation gain	-	-	-	-	-	-	116	116
Net loss	-	-	-	-	-	(3,934)	-	(3,934)
<b>Balance at September 30, 2017 (unaudited)</b>	<b>175,388</b>	<b>\$ 175</b>	<b>(10,308)</b>	<b>\$ (2,000)</b>	<b>\$ 63,269</b>	<b>\$ (51,724)</b>	<b>\$ (213)</b>	<b>\$ 9,507</b>

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

**Vaso Corporation and Subsidiaries**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)

(in thousands)

	Nine months ended September 30,	
	2017	2016
Cash flows from operating activities		
Net (loss) income	\$ (3,934)	\$ 437
Adjustments to reconcile net (loss) income to net cash provided by operating activities		
Depreciation and amortization	1,781	1,584
Deferred income taxes	287	135
Loss from interest in joint venture	30	29
Provision for doubtful accounts and commission adjustments	145	96
Amortization of debt issue costs	24	24
Share-based compensation	417	342
Provision for allowance for loss on loan receivable	-	412
Changes in operating assets and liabilities:		
Accounts and other receivables	1,671	2,214
Receivables due from related parties	(96)	396
Inventories, net	(235)	(374)
Deferred commission expense	(982)	448
Prepaid expenses and other current assets	(211)	(422)
Other assets, net	861	(285)
Accounts payable	(153)	74
Accrued commissions	(763)	(613)
Accrued expenses and other liabilities	(658)	(488)
Sales tax payable	52	(27)
Income taxes payable	11	(164)
Deferred revenue	2,674	(100)
Deferred tax liability	180	-
Other long-term liabilities	(235)	38
Net cash provided by operating activities	<u>866</u>	<u>3,756</u>
Cash flows from investing activities		
Purchases of equipment and software	(1,981)	(1,412)
Redemption of short-term investments	-	38
Investment in VSK	-	(422)
Net cash used in investing activities	<u>(1,981)</u>	<u>(1,796)</u>
Cash flows from financing activities		
Net borrowings on revolving line of credit	78	2,124
Debt issuance costs	-	(130)
Payroll taxes paid by withholding shares	(3)	(6)
Repayment of notes payable and capital lease obligations	(288)	(211)
Proceeds from note payable - related party	-	300
Payments on notes payable - related parties	(170)	(566)
Net cash (used in) provided by financing activities	<u>(383)</u>	<u>1,511</u>
Effect of exchange rate differences on cash and cash equivalents	<u>(67)</u>	<u>64</u>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(1,565)</b>	<b>3,535</b>
Cash and cash equivalents - beginning of period	7,087	2,160
Cash and cash equivalents - end of period	<u>\$ 5,522</u>	<u>\$ 5,695</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH INFORMATION</b>		
Interest paid	<u>\$ 483</u>	<u>\$ 589</u>
Income taxes paid	<u>\$ 35</u>	<u>\$ 474</u>
<b>SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES</b>		
Inventories transferred to property and equipment, net	<u>\$ -</u>	<u>\$ 149</u>
Equipment acquired through capital lease	<u>\$ -</u>	<u>\$ 387</u>
Liability settled through issuance of common stock	<u>\$ -</u>	<u>\$ 178</u>

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



## NOTE A - ORGANIZATION AND PLAN OF OPERATIONS

Vaso Corporation was incorporated in Delaware in July 1987. Unless the context requires otherwise, all references to "we", "our", "us", "Company", "registrant", "Vaso" or "management" refer to Vaso Corporation and its subsidiaries. The Company changed its name from Vasomedical, Inc. to Vaso Corporation in November 2016 at its annual shareholders meeting. The name was changed because the Company in the several years prior to the name change had substantially diversified its business and the original name, Vasomedical, Inc., no longer portrayed the nature of its overall business. In addition, the Company retained the name of VasoMedical, Inc. and now uses it exclusively for its proprietary medical device business, as the name originally represented.

## Overview

Vaso Corporation principally operates in three distinct business segments in the healthcare and information technology ("IT") industries. We manage and evaluate our operations, and report our financial results, through these three business segments.

- IT segment, operating through a wholly-owned subsidiary VasoTechnology, Inc., primarily focuses on healthcare IT and managed network technology services;
- Professional sales service segment, operating through a wholly-owned subsidiary Vaso Diagnostics, Inc. d/b/a VasoHealthcare, primarily focuses on the sale of healthcare capital equipment for General Electric Healthcare ("GEHC") into the healthcare provider middle market; and
- Equipment segment, operating through a wholly-owned subsidiary VasoMedical, Inc., primarily focuses on the design, manufacture, sale and service of proprietary medical devices.

*VasoTechnology*

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

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

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

*VasoHealthcare*

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

VasoHealthcare's current offerings consist of:

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

## Notes to Condensed Consolidated Financial Statements (unaudited)

*VasoMedical*

VasoMedical is the Company's business division for its proprietary medical device operations, including the design, development, manufacturing, sales and service of various medical devices in the domestic and international markets and includes the Vasomedical Global and Vasomedical Solutions business units. These devices are primarily for cardiovascular monitoring, diagnostic and therapeutic systems. Its current offerings consist of:

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

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

## NOTE B - BASIS OF PRESENTATION AND CRITICAL ACCOUNTING POLICIES

**Basis of Presentation and Use of Estimates**

The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and pursuant to the accounting and disclosure rules and regulations of the Securities and Exchange Commission (the "SEC"). Certain information and disclosures normally included in the financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations. Accordingly, these condensed consolidated financial statements should be read in connection with the audited consolidated financial statements and related notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016, as filed with the SEC on March 30, 2017.

These unaudited condensed consolidated financial statements include the accounts of the companies over which we exercise control. In the opinion of management, the accompanying condensed consolidated financial statements reflect all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of interim results for the Company. The results of operations for any interim period are not necessarily indicative of results to be expected for any other interim period or the full year.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the condensed consolidated financial statements, the disclosure of contingent assets and liabilities in the unaudited condensed consolidated financial statements and the accompanying notes, and the reported amounts of revenues, expenses and cash flows during the periods presented. Actual amounts and results could differ from those estimates. The estimates and assumptions the Company makes are based on historical factors, current circumstances and the experience and judgment of the Company's management. The Company evaluates its estimates and assumptions on an ongoing basis.

**Significant Accounting Policies and Recent Accounting Pronouncements**

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09 "Revenue from Contracts with Customers", a comprehensive new revenue recognition standard which will supersede previous existing revenue recognition guidance. The standard creates a five-step model for revenue recognition that requires companies to exercise judgment when considering contract terms and relevant facts and circumstances. The five-step model includes (1) identifying the contract, (2) identifying the separate performance obligations in the contract, (3) determining the transaction price, (4) allocating the transaction price to the separate performance obligations and (5) recognizing revenue when each performance obligation has been satisfied. The standard also requires expanded disclosures surrounding revenue recognition. The standard allows for either full retrospective or modified retrospective adoption. Public business entities should apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. In 2016, the FASB issued additional ASUs that clarify the implementation guidance on principal versus agent considerations (ASU 2016-08), on identifying performance obligations and licensing (ASU 2016-10), on narrow-scope improvements and practical expedients (ASU 2016-12), and on the revenue recognition criteria and other technical corrections (ASU 2016-20). The Company plans to adopt the ASU using the modified retrospective method. Such method provides that the cumulative effect from prior periods upon applying the new guidance is recognized in our consolidated balance sheets as of the date of adoption, including an adjustment to retained earnings. Prior periods will not be retrospectively adjusted. We have determined the only significant incremental costs incurred to obtain contracts with customers within the scope of ASC 606 are certain sales commissions paid to associates. Under current U.S. GAAP, we recognize sales commissions as incurred. Under the new guidance, we expect to record sales commissions as an asset, and amortize to expense over the related contract performance period. At the date of adoption of this new guidance, we expect to record an asset in our consolidated balance sheets for the amount of unamortized sales commissions for prior periods, as calculated under the new guidance. Such amount will subsequently be amortized to expense over the remaining performance periods of the related contracts with remaining performance obligations. Our analysis and evaluation of the new standard will continue through the effective date on January 1, 2018.

In February 2016, The FASB issued ASU 2016-02 (Topic 842), "Leases". ASU 2016-02 requires that a lessee recognize the assets and liabilities that arise from operating leases. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. This new standard would be effective for the Company beginning January 1, 2019 with early adoption permitted. The Company does not expect the adoption of this standard to have a material effect on its Consolidated Financial Statements.

In January 2017, the FASB issued ASU 2017-04, which eliminates the requirement to calculate the implied fair value of goodwill to measure a goodwill impairment charge. Instead, entities will record an impairment charge based on the excess of a reporting unit's carrying amount over its fair value. The standard is effective for fiscal periods beginning after December 15, 2019. Early adoption is permitted for interim and annual goodwill impairment testing dates after January 1, 2017. The Company does not expect the adoption of this standard to have a material effect on its Consolidated Financial Statements.

*Variable Interest Entities*

The Company follows the guidance of accounting for variable interest entities, which requires certain variable interest entities to be consolidated by the primary beneficiary of the entities. Biox is a Variable Interest Entity ("VIE").

Liabilities recognized as a result of consolidating this VIE do not represent additional claims on the Company's general assets. The financial information of Biox, which is included in the accompanying condensed consolidated financial statements, is presented as follows:

## Notes to Condensed Consolidated Financial Statements (unaudited)

	<i>(in thousands)</i>	
	As of September 30, 2017 (unaudited)	As of December 31, 2016
Cash and cash equivalents	\$ 35	\$ 13
Total assets	\$ 1,443	\$ 1,451
Total liabilities	\$ 1,700	\$ 1,133

	<i>(in thousands)</i>			
	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Total net revenue	\$ 318	\$ 399	\$ 1,049	\$ 1,314
Net (loss) income	\$ (90)	\$ 84	\$ (626)	\$ 244

*Reclassifications*

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

## NOTE C – SEGMENT REPORTING AND CONCENTRATIONS

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

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

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

## Notes to Condensed Consolidated Financial Statements (unaudited)

	<i>(in thousands)</i>			
	Three months ended September 30,		Nine months ended September 30,	
	2017 (unaudited)	2016 (unaudited)	2017 (unaudited)	2016 (unaudited)
Revenues from external customers				
IT	\$ 10,827	\$ 9,679	\$ 31,438	\$ 29,530
Professional sales service	6,305	6,583	18,181	20,289
Equipment	909	1,282	2,649	3,481
Total revenues	<u>\$ 18,041</u>	<u>\$ 17,544</u>	<u>\$ 52,268</u>	<u>\$ 53,300</u>
Gross Profit				
IT	\$ 4,516	\$ 4,129	\$ 12,912	\$ 12,094
Professional sales service	4,919	5,258	14,235	15,971
Equipment	593	763	1,749	2,210
Total gross profit	<u>\$ 10,028</u>	<u>\$ 10,150</u>	<u>\$ 28,896</u>	<u>\$ 30,275</u>
Operating (loss) income				
IT	\$ (555)	\$ (785)	\$ (2,186)	\$ (2,379)
Professional sales service	488	1,606	806	5,015
Equipment	(273)	10	(805)	(700)
Corporate	(279)	(329)	(984)	(1,011)
Total operating (loss) income	<u>\$ (619)</u>	<u>\$ 502</u>	<u>\$ (3,169)</u>	<u>\$ 925</u>
Capital expenditures				
IT	\$ 641	\$ 446	\$ 1,830	\$ 1,187
Professional sales service	3	57	117	168
Equipment	-	2	21	57
Corporate	13	-	13	-
Total cash capital expenditures	<u>\$ 657</u>	<u>\$ 505</u>	<u>\$ 1,981</u>	<u>\$ 1,412</u>

	<i>(in thousands)</i>	
	September 30, 2017 (unaudited)	December 31, 2016
	Identifiable Assets	
IT	\$ 28,512	\$ 27,724
Professional sales service	12,572	14,611
Equipment	7,728	7,446
Corporate	5,902	7,600
Total assets	<u>\$ 54,714</u>	<u>\$ 57,381</u>

In the fourth quarter of 2016, the Company revised its method for allocating certain corporate expenses to its reportable segments resulting in lower amounts allocated to the IT segment and higher amounts allocated to the professional sales service and equipment segments. Consequently, due primarily to the change in allocation method, as well as to a \$102,000 decrease in total corporate costs allocated, the IT segment received \$177,000 lower allocations, and the professional sales service segment received \$75,000 higher allocations, respectively, for the three months ended September 30, 2017 as compared to the corresponding period of the prior year. Similarly, for the nine months ended September 30, 2017, total corporate costs allocated decreased \$85,000, the IT segment received \$430,000 lower allocations, and the professional sales service segment and equipment segment received \$334,000 and \$11,000 higher allocations, respectively, as compared to the corresponding period of the prior year.

## Notes to Condensed Consolidated Financial Statements (unaudited)

GE Healthcare accounted for 35% and 38% of revenue for both the three months ended September 30, 2017 and 2016, respectively, and the nine months ended September 30, 2017 and 2016, respectively. GE Healthcare also accounted for \$6.4 million or 59%, and \$7.9 million or 62%, of accounts and other receivables at September 30, 2017 and December 31, 2016, respectively.

## NOTE D – (LOSS) EARNINGS PER COMMON SHARE

Basic (loss) earnings per common share is computed as (loss) earnings applicable to common stockholders divided by the weighted-average number of common shares outstanding for the period. Diluted (loss) earnings per common share reflects the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted to common stock.

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

	<i>(in thousands)</i>			
	For the three months ended		For the nine months ended	
	<u>September 30, 2017</u>	<u>September 30, 2016</u>	<u>September 30, 2017</u>	<u>September 30, 2016</u>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Basic weighted average shares outstanding	163,307	160,268	161,817	158,730
Dilutive effect of options and unvested restricted shares	-	1,407	-	749
Diluted weighted average shares outstanding	<u>163,307</u>	<u>161,675</u>	<u>161,817</u>	<u>159,479</u>

The following table represents common stock equivalents that were excluded from the computation of diluted earnings per share for the three and nine months ended September 30, 2017 and 2016, because the effect of their inclusion would be anti-dilutive.

	<i>(in thousands)</i>			
	For the three months ended		For the nine months ended	
	<u>September 30, 2017</u>	<u>September 30, 2016</u>	<u>September 30, 2017</u>	<u>September 30, 2016</u>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Restricted common stock grants	<u>4,613</u>	<u>2,246</u>	<u>4,613</u>	<u>500</u>

## Notes to Condensed Consolidated Financial Statements (unaudited)

## NOTE E – ACCOUNTS AND OTHER RECEIVABLES, NET

The following table presents information regarding the Company's accounts and other receivables as of September 30, 2017 and December 31, 2016:

	<i>(in thousands)</i>	
	<u>September 30, 2017</u>	<u>December 31, 2016</u>
	(unaudited)	
Trade receivables	\$ 15,549	\$ 16,470
Due from employees	105	430
Allowance for doubtful accounts and commission adjustments	(4,710)	(4,159)
Accounts and other receivables, net	<u>\$ 10,944</u>	<u>\$ 12,741</u>

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

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

## NOTE F – INVENTORIES, NET

Inventories, net of reserves, consist of the following:

	<i>(in thousands)</i>	
	<u>September 30, 2017</u>	<u>December 31, 2016</u>
	(unaudited)	
Raw materials	\$ 553	\$ 501
Work in process	536	727
Finished goods	1,569	1,167
	<u>\$ 2,658</u>	<u>\$ 2,395</u>

At September 30, 2017 and December 31, 2016, the Company maintained reserves for slow moving inventories of \$810,000 and \$827,000, respectively.

## NOTE G – GOODWILL AND OTHER INTANGIBLES

Goodwill aggregating \$17,407,000 and \$17,280,000 was recorded on the Company's condensed consolidated balance sheets at September 30, 2017 and December 31, 2016, respectively, of which \$14,375,000, allocated to the IT segment, resulted from the acquisition of NetWolves in May 2015. The remaining \$3,032,000 of goodwill is allocated to the Company's equipment segment. The components of the change in goodwill are as follows:

## Notes to Condensed Consolidated Financial Statements (unaudited)

	<i>(in thousands)</i> Carrying Amount
Balance at December 31, 2016	\$ 17,280
Foreign currency translation adjustment	127
Balance at September 30, 2017 (unaudited)	<u>\$ 17,407</u>

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

	<i>(in thousands)</i> September 30, 2017 (unaudited)	December 31, 2016
Customer-related		
Costs	\$ 5,831	\$ 5,831
Accumulated amortization	(2,318)	(1,768)
	<u>3,513</u>	<u>4,063</u>
Patents and Technology		
Costs	2,363	2,363
Accumulated amortization	(1,238)	(1,061)
	<u>1,125</u>	<u>1,302</u>
Software		
Costs	1,720	1,394
Accumulated amortization	(906)	(763)
	<u>814</u>	<u>631</u>
	<u>\$ 5,452</u>	<u>\$ 5,996</u>

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

Amortization expense amounted to \$279,000 and \$284,000 for the three months ended September 30, 2017 and 2016, respectively, and \$870,000 and \$847,000 for the nine months ended September 30, 2017 and 2016, respectively.

Amortization of intangibles for the next five years is:

Years ending December 31,	<i>(in thousands)</i> (unaudited)
Remainder of 2017	\$ 292
2018	1,015
2019	893
2020	809
2021	737
<b>Total</b>	<u>\$ 3,746</u>



## Notes to Condensed Consolidated Financial Statements (unaudited)

## NOTE H – OTHER ASSETS, NET

Other assets, net consist of the following at September 30, 2017 and December 31, 2016:

	<i>(in thousands)</i>	
	<u>September 30, 2017</u>	<u>December 31, 2016</u>
	(unaudited)	
Deferred commission expense - noncurrent	\$ 2,118	\$ 2,967
Trade receivables - noncurrent	900	1,064
Other, net of allowance for loss on loan receivable of \$412 at September 30, 2017 and December 31, 2016	880	970
	<u>\$ 3,898</u>	<u>\$ 5,001</u>

## NOTE I – ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses and other liabilities consist of the following at September 30, 2017 and December 31, 2016:

	<i>(in thousands)</i>	
	<u>September 30, 2017</u>	<u>December 31, 2016</u>
	(unaudited)	
Accrued compensation	\$ 840	\$ 1,133
Accrued expenses - other	1,234	1,140
Other liabilities	2,543	3,002
	<u>\$ 4,617</u>	<u>\$ 5,275</u>

## Notes to Condensed Consolidated Financial Statements (unaudited)

## NOTE J - DEFERRED REVENUE

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

	<i>(in thousands)</i>			
	For the three months ended		For the nine months ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Deferred revenue at beginning of period	\$ 20,692	\$ 17,783	\$ 19,404	\$ 18,516
Additions:				
Deferred extended service contracts	118	159	553	488
Deferred in-service and training	5	10	13	18
Deferred service arrangements	8	20	28	40
Deferred commission revenues	4,036	3,411	10,286	8,492
Recognized as revenue:				
Deferred extended service contracts	(159)	(186)	(501)	(584)
Deferred in-service and training	(3)	(3)	(13)	(15)
Deferred service arrangements	(11)	(13)	(34)	(33)
Deferred commission revenues	(2,608)	(2,765)	(7,658)	(8,506)
Deferred revenue at end of period	22,078	18,416	22,078	18,416
Less: current portion	12,651	7,830	12,651	7,830
Long-term deferred revenue at end of period	<u>\$ 9,427</u>	<u>\$ 10,586</u>	<u>\$ 9,427</u>	<u>\$ 10,586</u>

## NOTE K – LINE OF CREDIT

In August 2016, NetWolves' lending institution extended its \$3.0 million line of credit and, in September 2016, increased the maximum borrowings to \$4.0 million. Advances under the line, which expired on August 26, 2017 and was extended through March 31, 2018, bear interest at a rate of LIBOR plus 2.25% and are secured by substantially all of the assets of NetWolves Network Services, LLC and guaranteed by Vaso Corporation. At September 30, 2017, the Company had drawn approximately \$3.9 million against the line. The draw is included in notes payable and capital lease obligations – current portion in the Company's condensed consolidated balance sheet.

In August 2016, the Company executed a \$2.0 million line of credit agreement with a lending institution. Advances under the line, which expired on August 23, 2017 and was extended through March 31, 2018, bear interest at a rate of LIBOR plus 2.25% and are secured by substantially all of the assets of the Company. No advances under the line had been drawn as of September 30, 2017. The line of credit agreement includes certain financial covenants. At September 30, 2017, the Company was not in compliance with one of the covenants.

## NOTE L – RELATED-PARTY TRANSACTIONS

On May 29, 2015, the Company entered into a Note Purchase Agreement with MedTechnology Investments, LLC ("MedTech") pursuant to which it issued MedTech a secured subordinated promissory note ("Note") for \$3,800,000 for the purchase of NetWolves. MedTech was formed to acquire the Note, and \$1,950,000 of the aggregate funds used to acquire the Note was provided by six of our directors. In September 2015, a second Note for \$750,000 was issued to MedTech for working capital purposes, of which \$250,000 was provided by a director and a director's relative. In July 2015, an additional \$250,000 was borrowed under the Note Purchase Agreement. The Notes bear interest, payable quarterly, at an annual rate of 9%, mature on May 29, 2019, may be prepaid without penalty, and are subordinated to any current or future Senior Debt as defined in the Subordinated Security Agreement. The Subordinated Security Agreement secures payment and performance of the Company's obligations under the Notes and as a result, MedTech was granted a subordinated security interest in the Company's assets.

## Notes to Condensed Consolidated Financial Statements (unaudited)

David Lieberman, the Vice Chairman of the Company's Board of Directors, is a practicing attorney in the State of New York and a senior partner at the law firm of Beckman, Lieberman & Barandes, LLP, which performs certain legal services for the Company. Fees of approximately \$85,000 were billed by the firm for each of the three month periods ended September 30, 2017 and 2016, and fees of approximately \$255,000 were billed for each of the nine month periods ended September 30, 2017 and 2016, at which dates no amounts were outstanding.

In July, 2017, the Company made partial principal payments aggregating Chinese yuan RMB1,125,000 (approximately \$170,000), plus accrued interest, on notes payable to the president of Life Enhancement Technology Ltd. and the president of Biox Instruments Company Ltd. The notes were issued in conjunction with the acquisition of Genwell Instruments Company Ltd in August 2014. The note balance of RMB3,375,000 (approximately \$507,000) matures August 26, 2019.

At September 30, 2017, the Company had contributed \$522,000 to the VSK joint venture, and \$296,000, net, was due to VSK. The Company's pro-rata share in VSK's income (loss) from operations approximated \$29,000 and \$48,000 for the three months ended September 30, 2017 and 2016, respectively, and \$(30,000) and \$(29,000) for the nine months ended September 30, 2017 and 2016, respectively, and is included in interest and other income, net in the accompanying unaudited condensed consolidated statements of operations and comprehensive (loss) income.

## NOTE M – COMMITMENTS AND CONTINGENCIES

*Litigation*

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

*Sales representation agreement*

In September 2012, the Company concluded an amendment of the GEHC Agreement with GEHC, originally signed on May 19, 2010. The amendment, effective July 1, 2012, extended the initial term of three years commencing July 1, 2010 to five years through September 30, 2015. In December 2014, the Company concluded an additional amendment, effective January 1, 2015, extending the term through December 31, 2018, subject to earlier termination under certain circumstances and termination without cause on six months written notice. These circumstances include not materially achieving certain sales goals, not maintaining a minimum number of sales representatives, and various legal and GEHC policy requirements.

## ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*Except for historical information contained in this report, the matters discussed are forward-looking statements that involve risks and uncertainties. When used in this report, words such as "anticipates", "believes", "could", "estimates", "expects", "may", "plans", "potential" and "intends" and similar expressions, as they relate to the Company or its management, identify forward-looking statements. Such forward-looking statements are based on the beliefs of the Company's management, as well as assumptions made by and information currently available to the Company's management. Among the factors that could cause actual results to differ materially are the following: the effect of business and economic conditions; the effect of the dramatic changes taking place in the healthcare environment; the impact of competitive procedures and products and their pricing; medical insurance reimbursement policies; unexpected manufacturing or supplier problems; unforeseen difficulties and delays in the conduct of clinical trials and other product development programs; the actions of regulatory authorities and third-party payers in the United States and overseas; continuation of the GEHC agreements and the risk factors reported from time to time in the Company's SEC reports, including its recent report on Form 10-K. The Company undertakes no obligation to update forward-looking statements as a result of future events or developments.*

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

### General Overview

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

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

### Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon the accompanying unaudited condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"). The preparation of financial statements in conformity with U.S. GAAP requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses, and the related disclosures at the date of the financial statements and during the reporting period. Although these estimates are based on our knowledge of current events, our actual amounts and results could differ from those estimates. The estimates made are based on historical factors, current circumstances, and the experience and judgment of our management, who continually evaluate the judgments, estimates and assumptions and may employ outside experts to assist in the evaluations.

Certain of our accounting policies are deemed "critical", as they are both most important to the financial statement presentation and require management's most difficult, subjective or complex judgments as a result of the need to make estimates about the effect of matters that are inherently uncertain. For a discussion of our critical accounting policies, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2016 as filed with the SEC on March 30, 2017.

**Results of Operations – For the Three Months Ended September 30, 2017 and 2016***Revenues*

Total revenue for the three months ended September 30, 2017 and 2016 was \$18,041,000 and \$17,544,000, respectively, representing an increase of \$497,000, or 3% year-over-year. On a segment basis, revenue in the IT segment increased \$1,148,000, while revenue in the professional sales service and equipment segments decreased \$278,000 and \$373,000, respectively.

Revenue in the IT segment for the three months ended September 30, 2017 was \$10,827,000 compared to \$9,679,000 for the three months ended September 30, 2016, an increase of \$1,148,000, of which \$252,000 resulted from growth in the operations of NetWolves, and \$896,000 from the growth in the healthcare IT VAR business, due to more healthcare IT solutions installations in the third quarter of 2017. Our monthly recurring revenue in the managed network services operations continues to grow month over month as we add new customers and expand our services to existing customers; at the same time, the backlog of orders in our healthcare IT operations increased to \$10.4 million at September 30, 2017 from \$7.4 million at December 31, 2016 and \$6.3 million at September 30, 2016, due to growth in orders and clients. We anticipate that as our healthcare IT operations become more developed and the service delivery process accelerated, the backlog will convert to revenue in a more timely fashion and, coupled with continued growth in order volume, profitability will improve in this segment.

Commission revenues in the professional sales services segment were \$6,305,000 in the third quarter of 2017, a decrease of 4%, as compared to \$6,583,000 in the same quarter of 2016. The decrease in commission revenues was due primarily to a decrease in the volume of equipment delivered by GEHC during the period. The Company recognizes commission revenue when the underlying equipment has been accepted at the customer site in accordance with the specific terms of the sales agreement. Consequently, amounts billable under the agreement with GE Healthcare prior to customer acceptance of the equipment are recorded as deferred revenue in the condensed consolidated balance sheet. As of September 30, 2017, \$21,132,000 in deferred commission revenue was recorded in the Company's condensed consolidated balance sheet, of which \$9,013,000 was long-term. At September 30, 2016, \$17,355,000 in deferred commission revenue was recorded in the Company's condensed consolidated balance sheet, of which \$10,115,000 was long-term. The increase in deferred revenue is principally due to an increase in orders booked and the decrease in deliveries by GEHC.

Revenue in the equipment segment decreased by \$373,000, or 29%, to \$909,000 for the three-month period ended September 30, 2017 from \$1,282,000 for the same period of the prior year. The decrease was principally due to lower EECF<sup>®</sup> deliveries.

*Gross Profit*

Gross profit for the three months ended September 30, 2017 and 2016 was \$10,028,000, or 56% of revenue, and \$10,150,000, or 58% of revenue, respectively, representing a decrease of \$122,000, or 1% year-over-year. On a segment basis, gross profit in the IT segment increased \$387,000, while gross profit in the professional sales services segment and equipment segment decreased \$339,000 and \$170,000, respectively.

IT segment gross profit for the three months ended September 30, 2017 was \$4,516,000, or 42% of the segment revenue, compared to \$4,129,000, or 43% of the segment revenue for the three months ended September 30, 2016, with the increase primarily resulting from higher sales.

Professional sales services segment gross profit was \$4,919,000, or 78% of segment revenue, for the three months ended September 30, 2017 as compared to \$5,258,000, or 80% of the segment revenue, for the three months ended September 30, 2016, reflecting a decrease of \$339,000, or 6%. The decrease in absolute dollars was primarily due to lower commission revenue as a result of lower volume of GEHC equipment delivered during the third quarter of 2017 than in the same period last year.

Cost of commissions in the professional sales service segment of \$1,386,000 and \$1,325,000, for the three months ended September 30, 2017 and 2016, respectively, reflected commission expense associated with recognized commission revenues. Commission expense associated with deferred revenue is recorded as deferred commission expense until the related commission revenue is recognized.

Equipment segment gross profit decreased to \$593,000, or 65% of segment revenues, for the third quarter of 2017 compared to \$763,000, or 60% of segment revenues, for the same quarter of 2016. Gross profit decreased due to lower sales volume and gross profit margin increased due mainly to a higher proportion of higher margin products in the sales mix in 2017, compared to the third quarter 2016.

#### *Operating Income (Loss)*

Operating (loss) income for the three months ended September 30, 2017 and 2016 was \$(619,000) and \$502,000, respectively, representing a decrease of \$1,121,000, primarily due to higher operating costs and lower gross profit. On a segment basis, operating loss in the IT segment decreased \$230,000, while operating income in the professional sales service segment decreased \$1,118,000. Operating loss in the equipment segment was \$(273,000) for the third quarter of 2017 as compared to operating income of \$10,000 in the same quarter of 2016. In addition, corporate expenses decreased \$50,000.

Operating loss in the IT segment decreased in the three-month period ended September 30, 2017 as compared to the same period of 2016 due to higher gross profit, partially offset by higher research and development costs. Operating income in the professional sales service segment decreased in the three-month period ended September 30, 2017 as compared to operating income in the same period of 2016 due to lower gross profit combined with higher selling, general, and administrative ("SG&A") costs. The change from equipment segment operating income in the third quarter of 2016 to operating loss in the third quarter of 2017 was due to lower gross profit and higher SG&A costs.

SG&A costs for the three months ended September 30, 2017 and 2016 were \$10,412,000 and \$9,531,000, respectively, representing an increase of \$881,000, or 9% year-over-year. On a segment basis, SG&A costs in the professional sales service segment increased \$778,000 due to increased headcount and other personnel-related costs, and SG&A costs in the equipment segment increased \$127,000 due mainly to higher travel and exhibition costs. SG&A costs in the IT segment increased by \$29,000 to \$4,941,000 in the third quarter of 2017 from \$4,912,000 in the same quarter of the prior year due to increased personnel costs in the IT VAR business. Corporate costs not allocated to segments decreased by \$50,000 from \$329,000 for the three months ended September 30, 2016 to \$279,000 for the three months ended September 30, 2017, due primarily to lower director fees.

Research and development ("R&D") expenses were \$235,000, or 1% of revenues, for the third quarter of 2017, an increase of \$118,000, or 101%, from \$117,000, or 1% of revenues, for the third quarter of 2016. The increase is primarily attributable to higher software development expenses in the IT segment.

#### *Adjusted EBITDA*

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

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

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

	<i>(in thousands)</i>	
	Three months ended September	
	30,	
	2017	2016
	(unaudited)	(unaudited)
Net (loss) income	\$ (816)	\$ 328
Interest expense (income), net	163	166
Income tax expense (benefit)	94	103
Depreciation and amortization	611	549
Share-based compensation	100	275
Adjusted EBITDA	\$ 152	\$ 1,421

Adjusted EBITDA decreased by \$1,269,000, to \$152,000 in the quarter ended September 30, 2017 from \$1,421,000 in the quarter ended September 30, 2016. The decrease was primarily attributable to the lower net income and share-based compensation, partially offset by higher fixed asset depreciation in the IT segment.

#### *Interest and Other Income (Expense)*

Interest and other income (expense) for the three months ended September 30, 2017 was \$(103,000) as compared to \$(71,000) for the corresponding period of 2016. The expense increase was due primarily to lower other income for the three months ended September 30, 2017.

#### *Income Tax Expense*

For the three months ended September 30, 2017, we recorded income tax expense of \$94,000 as compared to \$103,000 for the corresponding period of 2016. The decrease arose mainly from lower state income taxes.

#### *Net (Loss) Income*

Net loss for the three months ended September 30, 2017 was \$816,000 as compared to net income of \$328,000 for the three months ended September 30, 2016, representing a decrease of \$1,144,000. Our net loss per share was \$0.00 in the three-month period ended September 30, 2017, as compared to net income of \$0.00 per share in the three-month period ended September 30, 2016. The principal cause of the decrease in net income is the decrease in revenue and gross profit in the professional sales service segment resulting from lower deliveries, combined with the increase in SG&A costs.

### **Results of Operations – For the Nine Months Ended September 30, 2017 and 2016**

#### *Revenues*

Total revenue for the nine months ended September 30, 2017 and 2016 was \$52,268,000 and \$53,300,000, respectively, representing a decrease of \$1,032,000, or 2% year-over-year. On a segment basis, revenue in the IT segment increased \$1,908,000, while revenue in the professional sales service and equipment segments decreased \$2,108,000 and \$832,000, respectively.

Revenue in the IT segment for the nine months ended September 30, 2017 was \$31,438,000 compared to \$29,530,000 for the nine months ended September 30, 2016, an increase of \$1,908,000, of which \$1,136,000 resulted from growth in the operations of NetWolves, and \$772,000 from growth in the healthcare IT business due to an increase in new installations in the first nine months of 2017, partially offset by lower average revenue per installation. Our monthly recurring revenue in the managed network services operations continues to grow month over month as we add new customers and expand our services to existing customers; at the same time, the backlog of orders in our healthcare IT operations increased to \$10.4 million at September 30, 2017 from \$7.4 million at December 31, 2016 and \$6.3 million at September 30, 2016, due to growth in orders and clients. We anticipate that as our healthcare IT operations become more developed and the service delivery process accelerated, the backlog will convert to revenue in a more timely fashion and, coupled with continued growth in order volume, profitability will improve in this segment.

Commission revenues in the professional sales services segment were \$18,181,000 in the first nine months of 2017, a decrease of 10%, as compared to \$20,289,000 in the same period of 2016. The decrease in commission revenues was due primarily to a decrease in the volume of equipment delivered by GEHC during the period. The Company recognizes commission revenue when the underlying equipment has been accepted at the customer site in accordance with the specific terms of the sales agreement. Consequently, amounts billable under the agreement with GE Healthcare prior to customer acceptance of the equipment are recorded as deferred revenue in the condensed consolidated balance sheet. As of September 30, 2017, \$21,132,000 in deferred commission revenue was recorded in the Company's condensed consolidated balance sheet, of which \$9,013,000 was long-term. At September 30, 2016, \$17,355,000 in deferred commission revenue was recorded in the Company's condensed consolidated balance sheet, of which \$10,115,000 was long-term.

Revenue in the equipment segment decreased by \$832,000, or 24%, to \$2,649,000 for the nine-month period ended September 30, 2017 from \$3,481,000 for the same period of the prior year. The decrease was principally due to a decrease in EEC<sup>®</sup> and Biox ambulatory monitor revenues as a result of lower sales volume, as well as lower EEC<sup>®</sup> service contract and accessory revenues.

#### *Gross Profit*

Gross profit for the nine months ended September 30, 2017 and 2016 was \$28,896,000, or 55% of revenue, and \$30,275,000, or 57% of revenue, respectively, representing a decrease of \$1,379,000, or 5% year-over-year. On a segment basis, gross profit in the IT segment increased \$818,000, while gross profit in the professional sales services segment and equipment segment decreased \$1,736,000 and \$461,000, respectively.

IT segment gross profit for the nine months ended September 30, 2017 was \$12,912,000, or 41% of the segment revenue, compared to \$12,094,000, or 41% of the segment revenue for the nine months ended September 30, 2016, with the \$411,000 of the increase attributable to growth in both revenue and gross margin in the healthcare IT business and \$407,000 of the increase resulting from higher sales at NetWolves.

Professional sales services segment gross profit was \$14,235,000, or 78% of segment revenue, for the nine months ended September 30, 2017 as compared to \$15,971,000, or 79% of the segment revenue, for the nine months ended September 30, 2016, reflecting a decrease of \$1,736,000, or 11%. The decrease in absolute dollars was due to lower commission revenue as a result of lower volume of GEHC equipment delivered during the first three quarters of 2017 than in the same period last year, partially offset by lower commission expense in the first three quarters of 2017 compared to the same period of 2016.

Cost of commissions in the professional sales service segment of \$3,946,000 and \$4,318,000, for the nine months ended September 30, 2017 and 2016, respectively, reflected commission expense associated with recognized commission revenues. The decrease is due to the lower commission revenue. Commission expense associated with deferred revenue is recorded as deferred commission expense until the related commission revenue is recognized.

Equipment segment gross profit decreased to \$1,749,000, or 66% of segment revenues, for the first three quarters of 2017 compared to \$2,210,000, or 63% of segment revenues, for the same period of 2016, due to lower sales volume in the first three quarters of 2017, compared to the first three quarters of 2016.

#### *Operating (Loss) Income*

Operating (loss) income for the nine months ended September 30, 2017 and 2016 was \$(3,169,000) and \$925,000, respectively, representing a decrease of \$4,094,000, primarily due to higher operating costs and lower gross profit. On a segment basis, operating loss decreased \$193,000 in the IT segment and operating income in the professional sales service segment decreased \$4,209,000, while operating loss in the equipment segment increased \$105,000. In addition, corporate expenses decreased \$27,000.

Operating loss in the IT segment decreased in the nine-month period ended September 30, 2017 as compared to the same period of 2016 due to higher gross profit, partially offset by higher research and development and SG&A costs. Operating income in the professional sales service segment decreased in the nine-month period ended September 30, 2017 as compared to the same period of 2016 due to lower gross profit combined with higher SG&A costs. Operating loss in the equipment segment increased in the nine-month period ended September 30, 2017 as compared to the same period of 2016 due to lower gross profit, partially offset by lower SG&A costs.



SG&A costs for the nine months ended September 30, 2017 and 2016 were \$31,349,000 and \$28,981,000, respectively, representing an increase of \$2,368,000, or 8% year-over-year. On a segment basis, SG&A costs in the equipment segment decreased \$317,000 due mainly to a provision for loan loss made in the first three quarters of 2016, while SG&A costs in the professional sales service segment increased \$2,473,000 due to increased headcount and other personnel-related costs. SG&A costs in the IT segment increased by \$240,000 to \$14,713,000 in the first three quarters of 2017 from \$14,473,000 in the same period of the prior year due to increased personnel costs in the healthcare IT business. Corporate costs not allocated to segments decreased by \$27,000 from \$1,011,000 for the nine months ended September 30, 2016 to \$984,000 for the nine months ended September 30, 2017, due primarily to lower legal and director fees.

Research and development ("R&D") expenses were \$716,000, or 1% of revenues, for the first three quarters of 2017, an increase of \$347,000, or 94%, from \$369,000, or 1% of revenues, for the first three quarters of 2016. The increase is primarily attributable to higher software development expenses in the IT segment.

#### *Adjusted EBITDA*

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

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

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

	<i>(in thousands)</i>	
	Nine months ended September 30,	
	2017	2016
	(unaudited)	(unaudited)
Net (loss) income	\$ (3,934)	\$ 437
Interest expense (income), net	494	478
Income tax expense	314	154
Depreciation and amortization	1,781	1,608
Share-based compensation	417	342
Adjusted EBITDA	<u>\$ (928)</u>	<u>\$ 3,019</u>

Adjusted EBITDA decreased by \$3,947,000, to \$(928,000) in the nine months ended September 30, 2017 from \$3,019,000 in the nine months ended September 30, 2016. The decrease was primarily attributable to the change from income generated in the nine month period ended September 30, 2016 to net loss incurred in the nine month period ended September 30, 2017, partially offset by higher fixed asset depreciation in the IT segment and income tax expense.

#### *Interest and Other Income (Expense)*

Interest and other income (expense) for the nine months ended September 30, 2017 was \$(451,000) as compared to \$(334,000) for the corresponding period of 2016. The increase was due primarily to higher interest expense due to additional equipment financing and lower other income in 2017.

#### *Income Tax Expense*

For the nine months ended September 30, 2017, we recorded income tax expense of \$314,000 as compared to income tax expense of \$154,000 for the corresponding period of 2016. The increase arose mainly from application of alternative minimum tax credits in the prior year period.

#### *Net (Loss) Income*

Net loss for the nine months ended September 30, 2017 was \$3,934,000 compared to net income of \$437,000 for the nine months ended September 30, 2016, representing a decrease of \$4,371,000. Our net loss per share was \$0.02 in the nine month period ended September 30, 2017, as compared to net income of \$0.00 per share in the nine month period ended September 30, 2016. The principal cause of the decrease in net income is the decrease in revenue and gross profit in the professional sales service segment resulting from lower deliveries, combined with the increase in SG&A costs.

### **Liquidity and Capital Resources**

#### *Cash and Cash Flow*

We have financed our operations from working capital. At September 30, 2017, we had cash and cash equivalents of \$5,522,000 and negative working capital of \$5,956,000 compared to cash and cash equivalents of \$7,087,000 and negative working capital of \$567,000 at December 31, 2016. \$9,752,000 in negative working capital at September 30, 2017 is attributable to the net balance of deferred commission expense and deferred revenue. These are non-cash expense and revenue items and have no impact on future cash flows.

Cash provided by operating activities was \$866,000, which consisted of net loss after adjustments to reconcile net loss to net cash of \$1,250,000 and cash provided by operating assets and liabilities of \$2,116,000, during the nine months ended September 30, 2017, compared to cash provided by operating activities of \$3,756,000 for the same period in 2016. The changes in the account balances primarily reflect a decrease in accounts and other receivables of \$1,671,000 and increase in deferred revenue of \$2,674,000, partially offset by decreases in accrued expenses and other liabilities of \$658,000 and accrued commissions of \$763,000.

Cash used in investing activities during the nine-month period ended September 30, 2017 was \$1,981,000 for the purchase of equipment and software.

Cash used in financing activities during the nine-month period ended September 30, 2017 was \$383,000 primarily as a result of \$288,000 in payments of notes and capital leases issued for equipment purchases and \$170,000 in repayments of notes payable to related parties.

*Liquidity*

The Company expects to maintain sufficient liquidity through its cash on hand, availability of funds under its lines of credit, and internally generated funds to meet its obligations as they come due. The Company's profitability for the year will be largely dependent on deliveries of product by GEHC in our professional sales service segment since the Company does not recognize revenue in this segment until the equipment is delivered.

**ITEM 4 - CONTROLS AND PROCEDURES*****Evaluation of Disclosure Controls and Procedures***

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

Our CEO and our CFO have evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2017 and have concluded that the Company's disclosure controls and procedures were effective as of September 30, 2017.

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

There was no change in the Company's internal control over financial reporting during the Company's fiscal quarter ended September 30, 2017 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

**ITEM 6 – EXHIBITS**

Exhibits

- 31 Certifications of the Chief Executive Officer and the Chief Financial Officer pursuant to Rules 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32 Certifications of the Chief Executive Officer and the Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

In accordance with the requirements of the Exchange Act, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

VASO CORPORATION

By: /s/ Jun Ma

Jun Ma

President and Chief Executive Officer

(Principal Executive Officer)

/s/ Michael J. Beecher

Michael J. Beecher

Chief Financial Officer and Principal Accounting Officer

Date: November 14, 2017

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

I, Jun Ma, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Vaso Corporation and subsidiaries (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Jun Ma \_\_\_\_\_ .

Jun Ma

President and Chief Executive Officer

Date: November 14, 2017

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

I, Michael J. Beecher, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Vaso Corporation and subsidiaries (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

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

Date: November 14, 2017



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

In connection with the quarterly report of Vaso Corporation and subsidiaries (the "Company") on Form 10-Q for the period ending September 30, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jun Ma, as President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

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

Dated: November 14, 2017

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**EXHIBIT 32.2**

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

In connection with the quarterly report of Vaso Corporation and subsidiaries (the "Company") on Form 10-Q for the period ending September 30, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael J. Beecher, as Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

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

Dated: November 14, 2017