SECURITIES & EXCHANGE COMMISSION EDGAR FILING

VASO Corp

Form: 10-Q

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2016

[ ] 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	11-2871434
(State or other jurisdiction of incorporation or organization)	(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 x 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 or a smaller reporting company.

Large Accelerated Filer ❑ Accelerated Filer ❑ Non-Accelerated Filer ❑ Smaller Reporting Company ☑

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, 2016 - 163,503,446.

INDEX

ITEM 1 - FINANCIAL STATEMENTS

Vaso Corporation and Subsidiaries

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)

	September 30, 2016 (unaudited)	December 31, 2015
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 5,695	$ 2,160
Accounts and other receivables, net of an allowance for doubtful accounts and commission adjustments of $3,869 at September 30, 2016 and $3,863 at December 31, 2015	9,305	11,620
Receivables due from related parties	19	209
Inventories, net	2,138	1,963
Deferred commission expense	1,803	2,252
Prepaid expenses and other current assets	931	550
Total current assets	19,891	18,754
PROPERTY AND EQUIPMENT, net of accumulated depreciation of $3,585 at September 30, 2016 and $2,976 at December 31, 2015	3,986	2,888
GOODWILL	17,401	17,484
INTANGIBLES, net	6,232	6,977
OTHER ASSETS, net	4,434	4,315
	$ 51,944	$ 50,418
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 4,103	$ 4,037
Accrued commissions	1,418	2,031
Accrued expenses and other liabilities	3,759	4,511
Sales tax payable	643	671
Income taxes payable	38	202
Deferred revenue - current portion	7,830	9,480
Notes payable and capital lease obligations - current portion	3,740	1,485
Due to related party	239	33
Total current liabilities	21,770	22,450
LONG-TERM LIABILITIES		
Notes payable and capital lease obligations	4,958	4,886
Notes payable - related parties	675	963
Deferred revenue	10,586	9,036
Deferred tax liability	112	112
Other long-term liabilities	1,209	1,230
Total long-term liabilities	17,540	16,227
COMMITMENTS AND CONTINGENCIES (NOTE O)		
STOCKHOLDERS' EQUITY		
Preferred stock, $.01 par value; 1,000,000 shares authorized; nil shares issued and outstanding at September 30, 2016, and December 31, 2015	-	-
Common stock, $.001 par value; 250,000,000 shares authorized; 173,808,199 and 168,749,889 shares issued at September 30, 2016 and December 31, 2015, respectively; 163,500,112 and 158,441,802 shares outstanding at September 30, 2016 and December 31, 2015, respectively	174	168
Additional paid-in capital	62,771	62,263
Accumulated deficit	(48,173)	(48,610)
Accumulated other comprehensive loss	(138)	(80)
Treasury stock, at cost, 10,308,087 shares at September 30, 2016 and December 31, 2015	(2,000)	(2,000)
Total stockholders' equity	12,634	11,741
	$ 51,944	$ 50,418

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

Vaso Corporation and Subsidiaries

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

	Three months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Revenues				
Professional sales services	$ 6,583	$ 7,584	$ 20,289	$ 21,010
Managed IT systems and services	9,679	8,800	29,530	11,611
Equipment sales and services	1,282	1,017	3,481	3,077
Total revenues	17,544	17,401	53,300	35,698
Cost of revenues				
Cost of professional sales services	1,325	1,701	4,318	4,748
Cost of managed IT systems and services	5,550	5,308	17,436	6,921
Cost of equipment sales and services	519	542	1,271	1,283
Total cost of revenues	7,394	7,551	23,025	12,952
Gross profit	10,150	9,850	30,275	22,746
Operating expenses				
Selling, general and administrative	9,531	8,355	28,981	21,059
Research and development	117	158	369	430
Total operating expenses	9,648	8,513	29,350	21,489
Operating income	502	1,337	925	1,257
Other income (expense)				
Interest and financing costs	(175)	(148)	(516)	(265)
Interest and other income (expense), net	104	79	182	225
Total other expense, net	(71)	(69)	(334)	(40)
Income before income taxes	431	1,268	591	1,217
Income tax expense	(103)	(38)	(154)	(51)
Net income	328	1,230	437	1,166
Other comprehensive income				
Foreign currency translation gain (loss)	34	(145)	(58)	(114)
Comprehensive income	$ 362	$ 1,085	$ 379	$ 1,052
Income per common share				
- basic	$ 0.00	$ 0.01	$ 0.00	$ 0.01
-diluted	$ 0.00	$ 0.01	$ 0.00	$ 0.01
Weighted average common shares outstanding				
- basic	160,268	157,288	158,730	156,502
- diluted	161,675	157,782	159,479	156,868

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					
	Shares	Amount	Shares	Amount	Additional Paid-in-Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance at December 31, 2014	**166,435**	**$ 166**	**(10,308)**	**$ (2,000)**	**$ 61,924**	**$ (52,433)**	**$ 94**	**$ 7,751**
Share-based compensation	2,315	2	-	-	340	-	-	342
Shares not issued for employee tax liability	-	-	-	-	(1)	-	-	(1)
Foreign currency translation loss	-	-	-	-	-	-	(174)	(174)
Net income	-	-	-	-	-	3,823	-	3,823
Balance at December 31, 2015	**168,750**	**$ 168**	**(10,308)**	**$ (2,000)**	**$ 62,263**	**$ (48,610)**	**$ (80)**	**$ 11,741**
Share-based compensation	3,945	4	-	-	338	-	-	342
Shares issued to settle liability	1,113	2	-	-	176	-	-	178
Shares not issued for employee tax liability	-	-	-	-	(6)	-	-	(6)
Foreign currency translation loss	-	-	-	-	-	-	(58)	(58)
Net income	-	-	-	-	-	437	-	437
Balance at September 30, 2016 (unaudited)	**173,808**	**$ 174**	**(10,308)**	**$ (2,000)**	**$ 62,771**	**$ (48,173)**	**$ (138)**	**$ 12,634**

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,	
	2016	2015
Cash flows from operating activities		
Net income	$ 437	$ 1,166
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	1,584	778
Deferred income taxes	135	-
Loss from interest in joint venture	29	-
Provision for doubtful accounts and commission adjustments	96	109
Amortization of debt issue costs	24	5
Share-based compensation	342	301
Provision for allowance for loss on loan receivable	412	-
Changes in operating assets and liabilities:		
Accounts and other receivables	2,214	7,860
Receivables due from related parties	411	(85)
Inventories, net	(374)	(221)
Deferred commission expense	448	(382)
Other current assets	(422)	(53)
Other assets, net	(285)	2,274
Accounts payable	74	(5)
Accrued commissions	(613)	(548)
Accrued expenses and other liabilities	(488)	(2,104)
Sales tax payable	(27)	(68)
Income taxes payable	(164)	(25)
Deferred revenue	(100)	(2,782)
Notes payable due to related party	(15)	(42)
Other long-term liabilities	38	(299)
Net cash provided by operating activities	3,756	5,879
Cash flows from investing activities		
Purchases of equipment and software	(1,412)	(619)
Purchases of short-term investments	-	(38)
Redemption of short-term investments	38	40
Acquisition of Netwolves	-	(18,000)
Cash acquired through purchase of Netwolves	-	733
Investment in VSK	(422)	(100)
Net cash used in investing activities	(1,796)	(17,984)
Cash flows from financing activities		
Net borrowings on revolving line of credit	2,124	136
Debt issuance costs	(130)	-
Payroll taxes paid by withholding shares	(6)	-
Repayment of notes payable	(211)	(83)
Proceeds from notes payable	-	4,800
Proceeds from note payable - related party	300	-
Payments on notes payable - related parties	(566)	-
Net cash provided by financing activities	1,511	4,853
Effect of exchange rate differences on cash and cash equivalents	64	52
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,535	(7,200)
Cash and cash equivalents - beginning of period	2,160	9,128
Cash and cash equivalents - end of period	$ 5,695	$ 1,928

SUPPLEMENTAL DISCLOSURE OF CASH INFORMATION		
Interest paid	$ 589	$ 66
Income taxes paid	$ 474	$ 130
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Inventories transferred to property and equipment, net	$ 149	$ 138
Equipment acquired through capital lease	$ 387	$ -
Liability settled through issuance of common stock	$ 178	$ -

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 last several years has 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 VasoMedical, Inc. name 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 health 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 acquiredall 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 with GEHC, which is the healthcare business division of the General Electric Company ("GE"), to exploit the sale of certain healthcare capital equipment in the health 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.

VasoHealthcare has built a team of approximately 90 highly experienced sales professionals who utilize highly focused sales management and analytic tools to manage the complete sales process and to increase market penetration.

VasoMedical

VasoMedical is the Company's business division for its proprietary medical device business, including the various design, development, manufacturing, sales and service of medical devices in the domestic and international markets and includes the Vasomedical Global and Vasomedical Solutions business units. These devices primarily consist of cardiovascular 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.
- EECP® 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.

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 unaudited condensed consolidated 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, 2015, as filed with the SEC on March 30, 2016.

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

During the first quarter of 2016, we adopted Accounting Standards Update ("ASU") No. 2015-16,*Simplifying the Accounting for Measurement-period Adjustments,* and ASU No. 2016-09, *Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, neither of which had a material impact on our reported financial position or results of operations and cash flows. There have been no other significant changes in our reported financial position or results of operations and cash flows as a result of the adoption of new accounting pronouncements or to our significant accounting policies that were disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015 that have had a significant impact on our consolidated financial statements or notes thereto.

In April 2016, the FASB issued ASU No. 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*, which adds further guidance on identifying performance obligations and improves the operability and understanding of the licensing implementation guidance. The standard is effective for fiscal periods beginning after December 15, 2017, including interim periods therein. Early application for public entities is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company is currently evaluating the impact of the adoption of this standard 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:

	(in thousands)	
	As of September 30, 2016	As of December 31, 2015
	(unaudited)	
Cash and cash equivalents	$ 35	$ 104
Total assets	$ 1,404	$ 1,168
Total liabilities	$ 991	$ 1,007

	(in thousands)			
	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Total net revenue	$ 399	$ 358	$ 1,314	$ 1,183
Net income (loss)	$ 84	$ 24	$ 244	$ (199)

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 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 health 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:

	(in thousands)			
	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenues from external customers				
Professional sales service	$ 6,583	$ 7,584	$ 20,289	$ 21,010
IT	9,679	8,800	29,530	11,611
Equipment	1,282	1,017	3,481	3,077
Total revenues	$ 17,544	$ 17,401	$ 53,300	$ 35,698
Gross Profit				
Professional sales service	$ 5,258	$ 5,883	$ 15,971	$ 16,262
IT	4,129	3,492	12,094	4,690
Equipment	763	475	2,210	1,794
Total gross profit	$ 10,150	$ 9,850	$ 30,275	$ 22,746
Operating income (loss)				
Professional sales service	$ 1,606	$ 2,586	$ 5,015	$ 5,464
IT	(785)	(186)	(2,379)	(908)
Equipment	10	(583)	(700)	(1,892)
Corporate	(329)	(480)	(1,011)	(1,407)
Total operating income	$ 502	$ 1,337	$ 925	$ 1,257
Capital expenditures				
Professional sales service	$ 57	$ 78	$ 168	$ 184
IT	446	248	1,187	301
Equipment	2	105	57	134
Corporate	-	-	-	-
Total capital expenditures	$ 505	$ 431	$ 1,412	$ 619

	(in thousands)	
	September 30, 2016	December 31, 2015
	(unaudited)	
Identifiable Assets		
Professional sales service	$ 11,029	$ 13,854
IT	26,445	25,278
Equipment	7,951	8,735
Corporate	6,519	2,551
Total assets	$ 51,944	$ 50,418

In 2016, the Company revised its method for allocating certain corporate expenses to its reportable segments resulting in higher amounts allocated to the IT segment and lower amounts allocated to the professional sales service and equipment segments. Consequently, the IT segment received $232,000 and $590,000 higher allocations for the three and nine months ended September 30, 2016 as compared to the corresponding periods of the prior year. The professional sales service segment received $48,000 and $442,000 lower allocations and the equipment segment received $18,000 and $112,000 lower allocations for the three and nine months ended September 30, 2016 as compared to the corresponding periods of the prior year.

For both the three and nine months ended September 30, 2016, GE Healthcare accounted for 38% of revenue, and for the three and nine months ended September 30, 2015, GE Healthcare accounted for 44% and 59% of revenue, respectively. GE Healthcare also accounted for $5.2 million or 56%, and $8.1 million or 69%, of accounts and other receivables at September 30, 2016 and December 31, 2015, respectively.

NOTE D – EARNINGS PER COMMON SHARE

Basic earnings per common share is computed as earnings applicable to common stockholders divided by the weighted-average number of common shares outstanding for the period. Diluted 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 earnings per share were computed based on the weighted average number of shares outstanding plus all potentially dilutive common shares. A reconciliation of basic to diluted shares used in the earnings per share calculation is as follows:

	(in thousands)			
	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Basic weighted average shares outstanding	160,268	157,288	158,730	156,502
Dilutive effect of options and unvested restricted shares	1,407	494	749	366
Diluted weighted average shares outstanding	161,675	157,782	159,479	156,868

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, 2016 and 2015, because the effect of their inclusion would be anti-dilutive.

	(in thousands)			
	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Stock options	-	300	-	300
Restricted common stock grants	2,246	-	500	-
	2,246	300	500	300

NOTE E – ACCOUNTS AND OTHER RECEIVABLES, NET

The following table presents information regarding the Company's accounts and other receivables as of September 30, 2016 and December 31, 2015:

	(in thousands)	
	September 30, 2016 (unaudited)	December 31, 2015
Trade receivables	$ 12,740	$ 15,252
Due from employees	434	231
Allowance for doubtful accounts and commission adjustments	(3,869)	(3,863)
Accounts and other receivables, net	$ 9,305	$ 11,620

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:

	(in thousands)	
	September 30, 2016 (unaudited)	December 31, 2015
Raw materials	$ 496	$ 497
Work in process	357	392
Finished goods	1,285	1,074
	$ 2,138	$ 1,963

At September 30, 2016 and December 31, 2015, the Company maintained reserves for slow moving inventories of $786,000 and $861,000, respectively.

NOTE G – GOODWILL AND OTHER INTANGIBLES

Goodwill aggregating $17,401,000 and $17,484,000 was recorded on the Company's condensed consolidated balance sheets at September 30, 2016 and December 31, 2015, respectively, of which $14,375,000, allocated to the IT segment, resulted from the acquisition of NetWolves in May 2015. The remaining $3,026,000 of goodwill is allocated to the Company's equipment segment. The components of the change in goodwill are as follows:

	(in thousands) Carrying Amount
Balance at December 31, 2015	$ 17,484
Foreign currency translation	(83)
Balance at September 30, 2016 (unaudited)	$ 17,401

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:

	(in thousands)	
	September 30, 2016 (unaudited)	December 31, 2015
Customer-related		
Costs	$ 5,831	$ 5,831
Accumulated amortization	(1,557)	(926)
	4,274	4,905
Patents and Technology		
Costs	2,382	2,423
Accumulated amortization	(998)	(806)
	1,384	1,617
Software		
Costs	1,326	1,182
Accumulated amortization	(752)	(727)
	574	455
	$ 6,232	$ 6,977

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 $284,000 and $167,000 for the three months ended September 30, 2016, and 2015, respectively, and $847,000 and $502,000 for the nine months ended September 30, 2016 and 2015, respectively.

Amortization of intangibles for the next five years is:

Years ending December 31,	*(in thousands)* (unaudited)
Remainder of 2016	$ 284
2017	1,113
2018	959
2019	837
2020	753

NOTE H – OTHER ASSETS, NET

Other assets, net consist of the following at September 30, 2016 and December 31, 2015:

	(in thousands)	
	September 30, 2016 (unaudited)	December 31, 2015
Deferred commission expense - noncurrent	$ 2,497	$ 2,083
Trade receivables - noncurrent	879	1,025
Other, net of allowance for loss on loan receivable of $412 at September 30, 2016 and $0 at December 31, 2015	1,058	1,207
	$ 4,434	$ 4,315

NOTE I – ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses and other liabilities consist of the following at September 30, 2016 and December 31, 2015:

	(in thousands)	
	September 30, 2016 (unaudited)	December 31, 2015
Accrued compensation	$ 795	$ 1,589
Accrued expenses - other	809	1,414
Other liabilities	2,155	1,508
	$ 3,759	$ 4,511

NOTE J - DEFERRED REVENUE

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

	(in thousands)			
	For the three months ended		For the nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Deferred revenue at beginning of period	$ 17,783	$ 19,614	$ 18,516	$ 22,532
Additions:				
Deferred extended service contracts	159	160	488	465
Deferred in-service and training	10	5	18	10
Deferred service arrangements	20	10	40	25
Deferred commission revenues	3,411	3,516	8,492	6,847
Recognized as revenue:				
Deferred extended service contracts	(186)	(209)	(584)	(654)
Deferred in-service and training	(3)	-	(15)	(10)
Deferred service arrangements	(13)	(15)	(33)	(58)
Deferred commission revenues	(2,765)	(3,331)	(8,506)	(9,407)
Deferred revenue at end of period	18,416	19,750	18,416	19,750
Less: current portion	7,830	11,174	7,830	11,174
Long-term deferred revenue at end of period	$ 10,586	$ 8,576	$ 10,586	$ 8,576

NOTE K – DEBT AND LEASE OBLIGATIONS

Debt and lease obligations consist of the following:

	(in thousands) September 30, 2016 (unaudited)	(in thousands) December 31, 2015
Line of credit	$ 3,207	$ 1,076
Unsecured term loan	150	154
Notes payable - DFS	262	452
Notes payable - MedTech (net of $87 and $111 in debt issue costs at September 30, 2016 and December 31, 2015, respectively)	4,713	4,689
Notes payable - related parties	675	963
Capital lease obligations	366	-
Subtotal	9,373	7,334
Less: current portion	(3,740)	(1,485)
	$ 5,633	$ 5,849

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 expires on August 26, 2017, bear interest at a rate of LIBOR plus 2.25% (aggregating 2.68% at December 31, 2015 and 2.78% at September 30, 2016) and are secured by substantially all of the assets of NetWolves Network Services, LLC and guaranteed by Vaso Corporation. At September 30, 2016, the Company had drawn approximately $3.2 million against the line.

In August 2016, the Company executed an additional $2.0 million line of credit agreement with the same institution. Advances under the line, which expires on August 23, 2017, 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, 2016.

The line of credit agreement requires the Company to maintain certain restrictive financial covenants. At September 30, 2016, the Company was in compliance with such covenants.

Capital Lease Obligations

In July 2016, the Company entered into two three-year lease agreements for network equipment installed at its Florida data center. Assets under capital leases and related accumulated amortization is recorded under property and equipment in the accompanying condensed consolidated balance sheets. The future minimum lease payments as of September 30, 2016 are set forth in the following table:

Years ending December 31,	(in thousands) (unaudited)
Remainder of 2016	$ 37
2017	148
2018	148
2019	86
	419
Portion representing interest	(40)
Portion representing executory costs	(13)
Total capital lease obligations	$ 366

Total amounts payable by the Company under its various debt and capital lease obligations outstanding as of September 30, 2016 are:

		(in thousands)	
Years endiing December 31,	Financing obligations	Capital leases	Total
	(unaudited)	(unaudited)	(unaudited)
Remainder of 2016	$ 215	$ 30	$ 245
2017	3,404	123	3,527
2018	-	132	132
2019	5,475	81	5,556
Total	$ 9,094	$ 366	$ 9,460

NOTE L – EQUITY

On June 15, 2016, the Board of Directors ("Board") approved the 2016 Stock Plan (the "2016 Plan")for officers, directors, and senior employees of the Corporation or any subsidiary of the Corporation. The stock issuable under the 2016 Plan shall be shares of the Company's authorized but unissued or reacquired common stock. The maximum number of shares of common stock that may be issued under the 2016 Plan is 7,500,000 shares.

The 2016 Plan consists of a Stock Issuance Program, under which eligible persons may, at the discretion of the Board, be issued shares of common stock directly, as a bonus for services rendered or to be rendered to the Corporation or any subsidiary of the Corporation.

In July 2016, the Company granted 3.6 million shares of restricted common stock to directors, officers and key employees under the 2016 Stock Plan. One-third of the shares vested immediately and the remaining two-thirds vest equally one year and two years from grant date.

NOTE M – BUSINESS COMBINATION

On May 29, 2015, the Company entered into an agreement for, and completed its purchase of, all of the assets of NetWolves, LLC and its affiliates, including the membership interests in NetWolves Network Services LLC (collectively, "NetWolves") for $18,000,000 (the "Purchase Price"). The purchase of NetWolves was accomplished pursuant to an Asset Purchase Agreement (the "Purchase Agreement"). As a result, the Company effectively purchased all rights, titles and ownership of all assets held by NetWolves. The Purchase Price was paid using $14,200,000 in cash on hand and $3,800,000 raised through the issuance of a secured subordinated promissory note ("Note") to MedTechnology Investments, LLC ("MedTech" - see Note N). The Company believes there are significant operational synergies between NetWolves' capabilities and VasoHealthcare IT's requirements under its VAR contract with GEHC, as well as the opportunity to expand NetWolves' existing services to the healthcare IT market.

In accordance with Accounting Standards Codification 805, Business Combinations, the total purchase consideration is allocated to the net tangible and intangible assets acquired and liabilities assumed based on their estimated fair values at May 29, 2015 (the acquisition date). The following table summarizes the allocation of the assets acquired and liabilities assumed based on their estimated fair values as follows:

	(*in thousands)* May 29, 2015
Cash and cash equivalents	$ 733
Accounts receivable and other current assets	1,535
Other assets	50
Property and equipment	2,359
Accounts payable and other current liabilities	(4,382)
Long term debt	(1,701)
Goodwill and other intangibles	14,375
Customer-related intangibles	5,031
Total	$ 18,000

The goodwill is expected to be deductible for tax purposes.

The following unaudited supplemental pro forma information presents the financial results as if the acquisition of NetWolves had occurred January 1, 2014.

	(in thousands, except per share data)	
	Three months ended September 30, 2015	Nine Months ended September 30, 2015
	(unaudited)	(unaudited)
Revenue	$ 17,401	$ 48,850
Net income	1,353	1,584
Earnings per share - basic and diluted	$ 0.01	$ 0.01

NOTE N – RELATED-PARTY TRANSACTIONS

One of the Company's directors, Peter Castle, was the Chief Executive Officer and President of NetWolves, LLC. Another of the Company's directors, David Lieberman, was a director of NetWolves Network Services, LLC. Mr. Castle and Mr. Lieberman owned of record approximately 10.4% and 5.7%, respectively of the membership interests of NetWolves LLC. Mr. Lieberman may also be deemed to have owned beneficially up to an additional 13.5% of such membership interests. The Company's board of directors negotiated the Purchase Price on an arm's length basis, and both Mr. Castle and Mr. Lieberman abstained from the vote approving the Purchase Agreement (see Note M).

The Company obtained an opinion regarding the fairness of the Purchase Price for NetWolves from a reputable, independent third-party investment banking firm. $14,200,000 of the Purchase Price was paid for by cash on hand, and the remaining $3,800,000 was raised from the sale of the Note to MedTech. Of the $4,800,000 borrowed from MedTech, $2,200,000 was provided by nine of our directors or members of their families, and an additional $100,000 was provided by an additional director prior to his joining the board of directors in June 2015. The MedTech Note bears interest at 9% per annum.

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 and $255,000 were billed by the firm for the three and nine months ended September 30, 2016, respectively, at which date no amounts were outstanding. Fees of approximately $85,000 and $213,000 were billed by the firm through the three and nine month periods ended September 30, 2015, respectively, at which date no amounts were outstanding.

In July 2016, the Company made partial principal payments aggregating Chinese yuan RMB1,750,000 (approximately $288,000), 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 notes balance of RMB4,500,000 (approximately $675,000) matures August 26, 2019.

In January 2015, operations began under the VSK joint venture. The Company accounts for its investment in VSK using the equity method. On May 31, 2016, the Company, through its FGE subsidiary, borrowed $300,000 through the issuance of a promissory note to VSK. The note was repaid in full in September 2016. At September 30, 2016, the Company had contributed $522,000 to VSK, and $220,000, net, was due to VSK. The Company's pro-rata share in VSK's earnings (loss) from operations approximated $48,000 and $(29,000) for the three and nine months ended September 30, 2016, respectively, and is included in interest and other income (expense), net in the accompanying unaudited condensed consolidated statements of operations and comprehensive income. VSK earned approximately $97,000 and $143,000 for the three and nine months ended September 30, 2015, respectively. Under the terms of the agreement, the Company accrues no interest in VSK's income in the years ending December 31, 2015, 2016 and 2017 until certain performance targets are achieved. For the year ended December 31, 2015 such targets had not been achieved.

NOTE O – COMMITMENTS AND CONTINGENCIES

Litigation

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

Sales representation agreement

In June 2012, the Company concluded an amendment of the GEHC Agreement with GEHC, originally signed on May 19, 2010. The amendment, effective July 1, 2012, extended the initial term of three years commencing July 1, 2010 to five years through 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 or after July 1, 2017. These circumstances include not materially achieving certain sales goals, not maintaining a minimum number of sales representatives, and various legal and GEHC policy requirements. Under the terms of the agreement, the Company is required to lease dedicated computer equipment from GEHC for connectivity to their network.

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 health 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, 2015 as filed with the SEC on March 30, 2016.

Results of Operations - For the Three Months Ended September 30, 2016 and 2015

Revenues

Total revenue for the three months ended September 30, 2016 and 2015 was $17,544,000 and $17,401,000, respectively, representing an increase of $143,000, or 1% year-over-year. On a segment basis, revenue in the IT segment and equipment segment increased $879,000 and $265,000, respectively, while revenue in the professional sales service segment decreased $1,001,000.

Commission revenues in the professional sales services segment were $6,583,000 in the third quarter of 2016, a decrease of 13%, as compared to $7,584,000 in the third quarter of 2015. The decrease in commission revenues was due primarily to a decrease in the blended commission rates for equipment delivered by GEHC during the period, as well as lower delivery volume. 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, 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. At September 30, 2015, $18,595,000 in deferred commission revenue was recorded in the Company's condensed consolidated balance sheet, of which $8,068,000 was long-term.

Revenue in the IT segment for the three months ended September 30, 2016 was $9,679,000 compared to $8,800,000 for the three months ended September 30, 2015, an increase of $879,000, of which $780,000 resulted from growth in the operations of NetWolves, and $99,000 resulted from growth in the healthcare IT VAR business, which is still in its start-up phase. Our monthly recurring revenue in our managed network services operations continues to grow month over month as we add new customers and expand our services to existing customers. The backlog of orders in our IT VAR operations was $6.3 million at September 30, 2016 compared to a backlog of $3.7 million at September 30, 2015. We anticipate that as we invest in expanding the IT VAR operations and the backlog goes to revenue and expand our managed services offerings we expect significant improvement in profitability of this segment.

Revenue in the equipment segment increased by $265,000, or 26%, to $1,282,000 for the three-month period ended September 30, 2016 from $1,017,000 for the same period of the prior year. The increase was principally due to an increase in EECP® revenues and international sales by our China operations as a result of higher sales volume and higher average selling prices.

Gross Profit

Gross profit for the three months ended September 30, 2016 and 2015 was $10,150,000, or 58% of revenue, and $9,850,000, or 57% of revenue, respectively, representing an increase of $300,000, or 3% year-over-year. On a segment basis, gross profit in the IT segment and equipment segment increased $637,000 and $288,000, respectively, while gross profit in the professional sales service segment decreased $625,000.

Professional sales services segment gross profit was $5,258,000, or 80% of segment revenue, for the three months ended September 30, 2016 as compared to $5,883,000, or 78% of the segment revenue, for the three months ended September 30, 2015, reflecting a decrease of $625,000, or 11%. The decrease in absolute dollars and increase in margin percentage was due to lower blended commission rates on GEHC equipment delivered during the third quarter of 2016 than in the same period last year, as well as lower commission expense in the third quarter of 2016 compared to the same period of 2015.

Cost of commissions of $1,325,000 and $1,701,000, for the three months ended September 30, 2016 and 2015, respectively, reflected commission expense associated with recognized commission revenues. The decrease was due to lower commission expense rates on certain deliveries in the third quarter of 2016 compared to the same period in 2015 as well as lower delivery volume. Commission expense associated with deferred revenue is recorded as deferred commission expense until the related commission revenue is recognized.

IT segment gross profit for the three months ended September 30, 2016 was $4,129,000, or 43% of the segment revenue, compared to $3,492,000, or 40% of the segment revenue for the three months ended September 30, 2015, with the increase primarily resulting from higher sales as well as improved gross margin percentages at NetWolves.

Equipment segment gross profit increased to $763,000, or 60% of segment revenues, for the third quarter of 2016 compared to $475,000, or 47% of segment revenues, for the same quarter of 2015. Gross profit increased due to higher sales volume and gross profit margin increased due mainly to higher average selling prices on EECP® products, and certain non-recurring costs incurred in the 3rd quarter of 2015.

Operating Income

Operating income for the three months ended September 30, 2016 and 2015 was $502,000 and $1,337,000, respectively, representing a decrease of $835,000, or 62% year-over-year, primarily due to higher operating costs partially offset by higher gross profit. On a segment basis, operating income in the equipment segment increased $593,000, while operating income in the professional sales service segment and IT segment decreased $980,000 and $599,000, respectively.

Operating income in the professional sales service segment decreased in the three-month period ended September 30, 2016 as compared to the same period of 2015 due to lower gross profit combined with higher selling, general, and administrative ("SG&A") costs. Operating income in the IT segment decreased in the three-month period ended September 30, 2016 as compared to the same period of 2015 due to higher SG&A costs, partially offset by higher gross profit. Operating income in the equipment segment increased in the three-month period ended September 30, 2016 as compared to the same period of 2015 due to higher gross profit and lower SG&A costs.

SG&A costs for the three months ended September 30, 2016 and 2015 were $9,531,000 and $8,355,000, respectively, representing an increase of $1,176,000, or 14% year-over-year. On a segment basis, SG&A costs in the equipment segment decreased $264,000 due to reduced sales and marketing costs, while SG&A costs in the professional sales service segment and IT segment increased $355,000 and $1,233,000, respectively, due to higher personnel, legal and marketing costs in the professional sales service segment, and increased headcount, amortization, and corporate allocations in the IT segment. Corporate costs not allocated to segments decreased by $141,000 from $480,000 for the three months ended September 30, 2015 to $339,000 for the three months ended September 30, 2016. The decrease in corporate costs was due primarily to higher accounting costs incurred pursuant to the NetWolves acquisition in May 2015, partially offset by higher director fee costs in the current year quarter.

Research and development ("R&D") expenses were $117,000, or 1% of revenues (9% of equipment segment revenues), for the third quarter of 2016, a decrease of $41,000, or 26%, from $158,000, or 1% of revenues (16% of equipment segment revenues), for the third quarter of 2015. The decrease is primarily attributable to lower product development expenses.

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 accounting principles generally accepted in the United States ("GAAP") and should not be considered a substitute for operating income, which we consider to be the most directly comparable 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 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:

	(in thousands) Three months ended September 30, 2016 (unaudited)	(in thousands) Three months ended September 30, 2015 (unaudited)
Net income	$ 328	$ 1,230
Interest expense (income), net	166	141
Income tax expense	103	38
Depreciation and amortization	549	300
Share-based compensation	275	41
Adjusted EBITDA	$ 1,421	$ 1,750

Adjusted EBITDA decreased by $329,000, or 19%, to $1,421,000 in the quarter ended September 30, 2016 from $1,750,000 in the quarter ended September 30, 2015. The decrease was primarily attributable to the lower net income, partially offset by higher fixed asset depreciation in the IT segment and amortization of intangibles associated with the NetWolves acquisition in May 2015, higher interest expense arising from the MedTech Note used to partially fund the NetWolves acquisition, and higher share-based compensation and income tax expense.

Interest and Other Income (Expense)

Interest and other income (expense) for the three months ended September 30, 2016 was $(71,000) as compared to $(69,000) for the corresponding period of 2015. The increase was due primarily to higher interest expense partially offset by higher pro-rata share of VSK quarterly earnings.

Income Tax Expense

For the three months ended September 30, 2016, we recorded income tax expense of $103,000 as compared to income tax expense of $38,000 for the corresponding period of 2015. The increase arose mainly from tax amortization associated with the NetWolves acquisition.

Net income

Net income for the three months ended September 30, 2016 and 2015 was $328,000 and $1,230,000, respectively, representing a decrease of $902,000 or 73%. Our net income per share was $0.00 in the three month period ended September 30, 2016, and $0.01 per share in the three month period ended September 30, 2015. The principal cause of the decrease in net income is the decrease in revenue in the professional sales service segment combined with the increase in SG&A costs.

Results of Operations – For the Nine Months Ended September 30, 2016 and 2015

Revenues

Total revenue for the nine months ended September 30, 2016 and 2015 was $53,300,000 and $35,698,000, respectively, representing an increase of $17,602,000, or 49% year-over-year. On a segment basis, revenue in the IT segment and equipment segment increased $17,919,000 and $404,000, respectively, while revenue in the professional sales service segment decreased $721,000.

For the nine months ended September 30, 2016 and 2015, commission revenues in the professional sales service segment were $20,289,000 and $21,010,000, respectively, a decrease of $721,000, or 3%. The decrease in commission revenues in nine-month period ended September 30, 2016 was due primarily to lower blended commission rates on equipment delivered by GEHC, partially offset by higher volume of equipment delivered 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.

For the nine months ended September 30, 2016 revenue in the IT segment was $29,530,000 compared to $11,611,000 for the nine months ended September 30, 2015, an increase of $17,919,000, of which $16,489,000 resulted from the inclusion of nine months of NetWolves results in 2016 as compared to four months of results in the nine months ended September 30, 2015, as well as $1,430,000 higher revenue in the healthcare IT VAR business reflecting an increase in installations and recurring revenue.

For the nine month period ended September 30, 2016, revenue in the equipment segment increased by $404,000, or 13%, to $3,481,000 from $3,077,000 for the same period of the prior year. The change was primarily attributable to higher international sales by our China operations, as well as increases in EECP® revenues as a result of higher sales volume and average selling prices.

Gross Profit

For the nine months ended September 30, 2016 and 2015, gross profit was $30,275,000, or 57% of revenue, and $22,746,000, or 64% of revenue, respectively, representing an increase of $7,529,000, or 33% year-over-year. On a segment basis, gross profit in the IT segment and equipment segment increased $7,404,000 and $416,000, respectively, while gross profit in the professional sales service segment decreased $291,000.

For the nine months ended September 30, 2016 and 2015, gross profit in the professional sales service segment was $15,971,000, or 79% of segment revenue, as compared to $16,262,000, or 77% of the segment revenue, reflecting a decrease of $291,000, or 2%. The decrease in absolute dollars and increase in margin percentage was due to lower blended commission rates on GEHC equipment delivered during 2016 than in the same period last year, as well as lower commission expense in 2016.

Cost of commissions of $4,318,000 and $4,748,000 for the nine months ended September 30, 2016 and 2015, respectively, reflected commission expense associated with recognized commission revenues. The decrease was due to lower commission expense rates on certain deliveries in 2016 compared to the same period in 2015, partially offset by increased delivery volume. Commission expense associated with deferred revenue is recorded as deferred commission expense until the related commission revenue is recognized.

IT segment gross profit for the nine months ended September 30, 2016 was $12,094,000, or 41% of the segment revenue, compared to $4,690,000, or 40% of the segment revenue, for the nine months ended September 30, 2015, with the increase primarily resulting from the inclusion of nine months of NetWolves operations as compared to four months last year.

Equipment segment gross profit increased to $2,210,000, or 63% of Equipment segment revenues, for the first nine months of 2016 compared to $1,794,000, or 58% of segment revenues, for the same period of 2015. Gross profit margin in the equipment segment improved due to higher mix of sales by the Chinese operations, which have higher margins.

Operating Income

For the nine months ended September 30, 2016 and 2015, operating income was $925,000 and $1,257,000, respectively, representing a decrease of $332,000, or 26% year-over-year. On a segment basis, operating income in the equipment segment increased $1,192,000, while operating income in the professional sales service segment and IT segment decreased $449,000 and $1,471,000, respectively.

Operating income in the professional sales service segment decreased in the nine-month period ended September 30, 2016 as compared to the same period of 2015 due to lower gross profit combined with higher SG&A costs. Operating income in the IT segment decreased in the nine-month period ended September 30, 2016 as compared to the same period of 2015 due to higher SG&A costs, partially offset by higher gross profit. Operating income in the equipment segment increased in the nine months ended September 30, 2016 as compared to the corresponding period of 2015 due to higher gross profit and lower SG&A costs.

For the nine months ended September 30, 2016 and 2015, SG&A costs were $28,981,000 and $21,059,000, respectively, representing an increase of $7,922,000, or 38% year-over-year. On a segment basis, SG&A costs in the equipment segment decreased $714,000 due to lower sales and marketing costs, while SG&A costs in the professional sales service segment and IT segment increased $158,000 and $8,876,000, respectively, due to higher personnel, legal and marketing costs, partially offset by $442,000 lower corporate allocations, in the professional sales service segment, and increased headcount, amortization, corporate allocations and having nine months of the NetWolves operations included in 2016 versus only four months of NetWolves operations in 2015 in the IT segment. Corporate costs not allocated to segments decreased from $1,408,000 to $1,011,000, or by $397,000, for the nine months ended September 30, 2016 and 2015, respectively. The decrease in corporate costs was due primarily to higher accounting, legal and financing costs incurred pursuant to the Netwolves acquisition in May 2015, partially offset by higher director fee costs in the current year period.

For the nine months ended September 30, 2016 and 2015, R&D costs were $369,000, or 1% of revenues (11% of equipment segment revenues), a decrease of $61,000, or 14%, from $430,000, or 1% of revenues (14% of equipment segment revenues), for the corresponding period of the prior year. The decrease is primarily attributable to lower product development expenses.

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 accounting principles generally accepted in the United States ("GAAP") and should not be considered a substitute for operating income, which we consider to be the most directly comparable 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 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:

	(in thousands) Nine months ended September 30,	
	2016 (unaudited)	2015 (unaudited)
Net income	$ 437	$ 1,166
Interest expense (income), net	478	179
Income tax expense	154	51
Depreciation and amortization	1,608	783
Share-based compensation	342	301
Adjusted EBITDA	$ 3,019	$ 2,480

For the nine months ended September 30, 2016, Adjusted EBITDA increased by $539,000, or 22%, to $3,019,000 from $2,480,000 in the corresponding period of the prior year. The increase was primarily attributable to higher fixed asset depreciation in the IT segment and amortization of intangibles associated with the NetWolves acquisition in May 2015, higher interest expense arising from the MedTech Note used to partially fund the NetWolves acquisition, and higher share-based compensation and income tax expense, partially offset by lower net income.

Interest and Other Income (Expense)

Interest and other income (expense) for the nine months ended September 30, 2016 was $(334,000) as compared to $(40,000) for the corresponding period of 2015. The increase was due primarily to higher interest expense from debt associated with the NetWolves acquisition in May 2015.

Income Tax Expense

For the nine months ended September 30, 2016, we recorded income tax expense of $154,000 as compared to income tax expense of $51,000 for the corresponding period of 2015. The increase arose mainly from tax amortization associated with the NetWolves acquisition.

Net income

For the nine months ended September 30, 2016 and 2015, net income was $437,000 and $1,166,000, respectively, representing a decrease of $729,000 or 63%. Our net income per share was $0.00 in the nine-month period ended September 30, 2016, and $0.01 per share in the nine-month period ended September 30, 2015. The principal cause of the decrease in net income is the decrease in revenue in the professional sales service segment combined with the increase in SG&A expenses. For the nine months ended September 30, 2015, the above results reflect the operations of NetWolves for the four months subsequent to its acquisition on May 29, 2015. For the nine months ended September 30, 2015, the above results reflect the operations of NetWolves for the four months subsequent to its acquisition on May 29, 2015.

Liquidity and Capital Resources

Cash and Cash Flow

We have financed our operations from working capital. At September 30, 2016, we had cash and cash equivalents of $5,695,000 and negative working capital of $1,879,000 compared to cash and cash equivalents of $2,160,000 and negative working capital of $3,696,000 at December 31, 2015. $6,027,000 in negative working capital at September 30, 2016 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 $3,756,000, which consisted of net income after adjustments to reconcile net income to net cash of $3,059,000 and cash provided by operating assets and liabilities of $697,000, during the nine months ended September 30, 2016, compared to cash provided by operating activities of $5,879,000 for the same period in 2015. The changes in the account balances primarily reflect a decrease in accounts and other receivables of $2,214,000, partially offset by decreases in accrued commissions of $613,000 and accrued expenses of $488,000. Significantly higher commission billings and recognized revenue were generated in the fourth quarter of 2014, resulting in significant cash inflows early in 2015.

Cash used in investing activities during the nine-month period ended September 30, 2016 was $1,796,000. We invested $422,000 in the VSK joint venture as part of our capital contribution, and, $1,412,000 was used for the purchase of equipment and software. This was partially offset by the redemption of short-term investments of $38,000.

Cash provided by financing activities during the nine-month period ended September 30, 2016 was $1,511,000 as a result of $2,124,000 in net borrowings on our line of credit and $300,000 received through issuance of a note to VSK, partially offset by $130,000 in debt issuance costs associated with the MedTech note, $211,000 in repayments of notes issued for equipment purchases, $566,000 in payments on related party notes associated with the Genwell acquisition and repayment of the VSK note, and $6,000 in payment of payroll taxes where employee shares were withheld for such payments.

Liquidity

The Company expects to be profitable for the year ending December 31, 2016 and expects to continue to generate positive cash flows from its existing operations.

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, 2016 and have concluded that the Company's disclosure controls and procedures were effective as of September 30, 2016.

Changes in Internal Control Over Financial Reporting

There was no change in the Company's internal control over financial reporting during the Company's last fiscal quarter 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

3	Certificate of Amendment to Certificate of Incorporation.
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, 2016

Please refer to the pdf file named: vaso10q-sept2016ex3.pdf

EXHIBIT 31.1

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, 2016

EXHIBIT 31.2

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, 2016

EXHIBIT 32.1

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, 2016, 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, 2016

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, 2016, 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, 2016