

# SECURITIES & EXCHANGE COMMISSION EDGAR FILING

**VASO Corp**

**Form: 10-K**

**Date Filed: 2017-03-30**

Corporate Issuer CIK: 839087

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-K

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
*For the fiscal year ended December 31, 2016*
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File No. 0-18105



**VASO CORPORATION**

*(Exact name of registrant as specified in Its Charter)*

<b>Delaware</b> <i>(State or other jurisdiction of incorporation or organization)</i>	<b>11-2871434</b> <i>(IRS Employer Identification No.)</i>
<b>137 Commercial Street, Plainview, New York</b> <i>(Address of Principal Executive Offices)</i>	<b>11803</b> <i>(Zip Code)</i>

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

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

**Securities registered under Section 12(g) of the Act:**

Common Stock, \$.001 par value

*(Title of Class)*

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

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

Indicate by 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 past 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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

The aggregate market value of common stock held by non-affiliates was approximately \$14.6 million based on the closing sales price of the common stock as quoted on the OTC PK on June 30, 2016.

At March 25, 2017, the number of shares outstanding of the issuer's common stock was 163,503,446.

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**ITEM 1 – BUSINESS**

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 IT and healthcare; continuation of the GEHC agreements; the impact of competitive technology 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; and the risk factors reported from time to time in the Company's SEC reports. The Company undertakes no obligation to update forward-looking statements as a result of future events or developments.

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 principally operates in three distinct business segments in the healthcare equipment 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 General Electric Healthcare ("GEHC") into the health provider middle market; and
- Equipment segment, operating through wholly-owned subsidiaries Vasomedical Global Corp. and Vasomedical Solutions, 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"), to address a major issue facing the healthcare IT industry. It currently consists of a managed network and security service division, NetWolves, and a healthcare IT application VAR (value added reseller) division, VasoHealthcare IT. Its current offering includes:

- 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 (partner with major cybersecurity technologies firms including IBM and Palo Alto).

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

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 further 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 offering consists of:

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

VasoHealthcare has built a team of approximately 80 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 Global and Vasomedical Solutions*

Vasomedical Global was formed in 2011 to combine and coordinate the various design, development manufacturing, and sales operations of medical devices acquired by the Company. These devices primarily consist of cardiovascular diagnostic and therapeutic systems. Its current offering consists 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 systems, used for non-invasive, outpatient treatment of ischemic heart disease.

This segment uses its extensive cardiovascular device knowledge coupled with its engineering resources to cost effectively create and market its proprietary technology. It sells and services its products to domestic customers directly and sells and services its products in the international market through a global joint venture arrangement.

#### **Historical Background**

Vaso Corporation (formerly Vasomedical, Inc.) was incorporated in Delaware in July 1987. For most of its history, the Company was a single-product company designing, manufacturing, marketing and servicing its proprietary Enhanced External Counterpulsation, or EECP®, therapy systems, mainly for the treatment of angina. In 2010 it began to diversify its business operations.

In May 2010, the Company launched its Professional Sales Service business through a wholly-owned subsidiary Vaso Diagnostics, Inc. d/b/a VasoHealthcare, which was appointed the exclusive representative for the sale of select GE diagnostic imaging equipment to specific market segments in the 48 contiguous states of the United States and the District of Columbia. The original agreement ("GEHC Agreement") was for three years ending June 30, 2013; in 2012 it was extended to June 30, 2015 and again in 2014 to December 31, 2018.

In June 2014, the Company began its IT segment business by concluding the Value Added Reseller Agreement ("VAR Agreement") with GEHC to become a national value added reseller of GE Healthcare IT's Radiology PACS (Picture Archiving and Communication System) software solutions and related services, including implementation, management and support. This multiyear VAR Agreement focuses primarily on existing customer segments currently served by VasoHealthcare on behalf of GEHC. A new wholly owned subsidiary, VasoHealthcare IT Corp. ("VHC IT"), was formed to conduct the healthcare IT business.

In May 2015, the Company further expanded its IT segment business by acquiring all of the assets of NetWolves, LLC and its affiliates, including the membership interests in NetWolves Network Services, LLC (collectively, "NetWolves"), pursuant to an Asset Purchase Agreement. NetWolves designs and delivers efficient and cost-effective multi-network and multi-technology solutions as a managed network provider, and provides a complete single-source solution that includes design, network redundancy, application device management, real-time network monitoring, reporting and support systems as a comprehensive solution. The Company believes there are significant operational synergies between NetWolves' capabilities and VasoHealthcare IT's requirements under its VAR Agreement with GEHC, and has expanded NetWolves' existing services to the healthcare IT market.

The Company's Equipment business also has been significantly expanded from the original EECF<sup>®</sup>-only operations. In September 2011, the Company acquired FGE, a British Virgin Islands company, which owns or controls two Chinese operating companies - Life Enhancement Technology Ltd. ("LET") based in Foshan, China, and Biox Instruments Co. Ltd. ("Biox") based in Wuxi, China, respectively - to expand its technical and manufacturing capabilities and to enhance its distribution network, technology, and product portfolio. Biox is a variable interest entity controlled by FGE through certain contracts and an option to acquire all the shares of Biox. In August 2014, the Company acquired all of the outstanding shares of Genwell Instruments Co. Ltd. ("Genwell"), located in Wuxi, China, through its wholly owned subsidiary Wuxi Gentone Instruments Co. Ltd. ("Gentone"). Genwell was formed in China in 2010 with the assistance of a government grant to develop the MobiCare<sup>™</sup> wireless multi-parameter patient monitoring system and holds intellectual property rights for this system. As a result, the Company has now expanded its equipment products portfolio to include Biox<sup>™</sup> series ambulatory patient monitoring systems, ARCS<sup>™</sup> series software for ECG and blood pressure analysis, and the MobiCare<sup>™</sup> patient monitoring device.

In April 2014, the Company entered into an agreement with Chongqing PSK-Health Sci-Tech Development Co., Ltd. ("PSK") of Chongqing, China, the leading manufacturer of external counter pulsation, or ECP, therapy systems in China, to form a joint venture company, VSK Medical Limited ("VSK"), a Cayman Islands company, for the global marketing, sale and advancement of ECP therapy technology. The Company owns 49.9% of VSK, which commenced operations in January 2015.

## **Management**

The Company currently bases its headquarters in Plainview, Long Island, NY and maintains an office in Manhattan, NY. Reporting to the Board of Directors, corporate officers of the Company include the President and Chief Executive Officer ("CEO"), Chief Financial Officer ("CFO"), Chief Operating Officer ("COO"), and Vice President of Finance and Treasurer.

The management of our IT segment including its sales and marketing efforts is led by the COO of the Company, who is also the President of VasoTechnology and NetWolves, which is based in Tampa, FL. Our VasoHealthcare IT VAR business is organized as a part of VasoTechnology and is led by the General Manager of the business unit and supported by several software solution sales and implementation specialists, based in Nashville, TN. The business unit works with our VasoHealthcare diagnostic imaging equipment sales team to generate leads and potential clients for the software solutions products and works with NetWolves sales and technical teams for comprehensive IT product and service offerings.

In the professional sales services segment, we sell GEHC diagnostic imaging products to our assigned market through a nationwide team of approximately 65 sales employees led by its executive team and nine regional managers who report to the President of VasoHealthcare. The operation is also supported by in-house administrative, analytic and other support staff, as well as applicable GEHC employees.

The equipment segment is directly supervised by the CEO of the Company. Sales and marketing efforts in the domestic market are led by a vice president of national sales and service at Vasomedical Solutions, and the managers of our China subsidiaries are in charge of the development and production of all our proprietary products and marketing and sales in the international markets. We historically have marketed our EECF<sup>®</sup> systems internationally through distributors in various countries throughout Europe, the Middle East, Africa, Asia and Latin America. This distribution structure has been realigned with our partners via the joint venture VSK Medical. We sell our Biox<sup>™</sup> series and other products in China by a group of sales managers as well as through distributors covering various regions of China and other international geographies.

## Competition

In the U.S. diagnostic imaging market, our main competitors include Siemens, Philips, Canon, and Hologic. Key competitive factors in the market include price, quality, finance availability, delivery speed, service and support, innovation, distribution network, breadth of product and service offerings and brand name recognition. GEHC is a leading competitor in this market.

In the IT segment, our primary competitors in the healthcare IT VAR business are Agfa Healthcare, McKesson, Philips, Carestream Health and other independent software providers. Key competitive factors are brand recognition, quality, radiology workflow solutions, scalability and service and support capability. We are able to capitalize on the brand recognition of GEHC, a leader in healthcare software solutions. In the managed network services business our primary competition includes, but is not limited to, organizations who have a presence in most of the major markets for the following products and services; network services, managed services, security services and healthcare applications. Several of those competitors, many of which are our vendors, are: Verizon, AT&T, CenturyLink, IBM and Cisco Resellers, Siemens, Epic, small regional IT integrators and large company internal IT departments.

Though we believe that we are the industry leader of external counterpulsation technology, our competitors in our EEC<sup>®</sup> business are Renew Group Pte. Ltd and Scottcare Cardiovascular Solutions in the United States, and internationally PSK-Health Sci-Tech Development Co., Ltd., with which we have formed a joint venture to co-market external counterpulsation products in the international market.

In the ambulatory monitoring system business, there are numerous competitors of various size and strength. The Biox<sup>™</sup> series is among the few from China with CE Mark certification, CFDA approval, US FDA clearances as well as Health Canada listing, which are among the most important qualifications to market and sell the products around the world.

## Regulations on Medical Devices

As a medical device manufacturer and marketer, we are subject to extensive regulation by numerous government regulatory agencies, including the US FDA and similar foreign agencies. We are required to comply with applicable laws, regulations and standards governing the development, preclinical and clinical testing, manufacturing, quality testing, labeling, promotion, import, export, and distribution of our medical devices.

### *Compliance with Regulations in the United States*

The Company has received appropriate US FDA premarket notification (510(k)) clearance for all its products marketed and sold in the United States, including all EEC<sup>®</sup> therapy systems and Biox<sup>™</sup> ambulatory monitoring systems and analysis and report software. We continue to seek US FDA clearance or approval for new products prior to their introduction to the US market.

We are subject to other US FDA regulations that apply prior to and after a product is commercially released. We also are subject to periodic and random inspections by the US FDA for compliance with the current Good Manufacturing Practice, or cGMP, requirements and Quality System Regulation. The US FDA also enforces post-marketing controls that include the requirement to submit medical device reports to the agency when a manufacturer becomes aware of information suggesting that any adverse events are related to its marketed products. The FDA relies on medical device reports to identify product problems and utilizes these reports to determine, among other things, whether it should exercise its enforcement powers. The FDA also may require post-market surveillance studies for specified devices.

We are subject to the Federal Food, Drug, and Cosmetic Act's, or FDCA's, general controls, including establishment registration, device listing, and labeling requirements.

The sales and advertising of our products is subject to regulation by the Federal Trade Commission, or FTC. The FTC Act prohibits unfair or deceptive acts or practices in or affecting commerce. Violations of the FTC Act, such as failure to have substantiation for product claims, would subject us to a variety of enforcement actions, including compulsory process, cease and desist orders and injunctions, which can require, among other things, limits on advertising, corrective advertising, consumer redress and restitution, as well as substantial fines or other penalties.

As a medical device sales channel partner and product reseller to healthcare facilities, we are subject to various federal, state and local laws targeting fraud and abuse in the healthcare industry, including anti-kickback and false claims laws.

#### *Foreign Regulation*

In most countries to which we seek to export our medical devices, a local regulatory clearance must be obtained. The regulatory review process varies from country to country and can be complex, costly, uncertain, and time-consuming. Vasomedical's medical devices, including EEC<sup>®</sup> systems and Biox<sup>™</sup> series products, are all manufactured in accordance with ISO 13485, the international standard for medical devices. All our current medical devices have obtained necessary clearances or approvals prior to their release in the appropriate jurisdictions, including CE marking certification for European Union countries, China FDA (CFDA) approval for mainland China, Korean FDA (KFDA) approval for South Korea, Agencia Nacional de Vigilancia Sanitaria (ANVISA) approval for Brazil, and Health Canada license for Canada.

We are also subject to audits by organizations authorized by foreign countries to determine compliance with laws, regulations and standards that apply to the commercialization of our products in those markets. Examples include auditing by a European Union Notified Body organization (authorized by a member state's Competent Authority) to determine conformity with the Medical Device Directives (MDD) and by an organization authorized by the Canadian government to determine conformity with the Canadian Medical Devices Regulations (CMDR).

#### *Patient Privacy*

Federal and state laws protect the confidentiality of certain patient health information, including patient records, and restrict the use and disclosure of that protected information. The U.S. Department of Health and Human Services (HHS) published patient privacy rules under the Health Insurance Portability and Accountability Act of 1996 (HIPAA privacy rule) and the regulation was finalized in October 2002. Currently, the HIPAA privacy rule affects us only indirectly in that patient data that we access, collect and analyze may include protected health information. Additionally, we have signed some Business Associate Agreements with Covered Entities that contractually bind us to protect private health information, consistent with the HIPAA privacy rule's requirements. We do not expect the costs and impact of the HIPAA privacy rule to be material to our business.

#### **Regulations in the IT Business**

As a reseller of telecommunication services and network solutions provider, our products and services are subject to federal, state and local regulations. These regulations govern, in part, our rates and the way we conduct our business, including the requirement to offer telecommunications services pursuant to nondiscriminatory rates, terms, and conditions, the obligation to safeguard the confidentiality of customer proprietary network information, as well as the obligation to maintain specialized records and file reports with the Federal Communications Commission and state regulatory authorities. While we believe we are in compliance with laws and regulations in jurisdictions where we do business, we must continue to monitor and assess our compliance.

The Federal Communications Commission ("FCC") exercises jurisdiction over services and regulates interstate and international communications in all 50 states, the District of Columbia and U.S territories. As an independent U.S. government agency overseen by Congress, the commission is the United States' primary authority for communications laws, regulation and technological innovation.

We maintain Certificates of Public Convenience and Necessity in all 50 states, which enable us to provide services within each state. We are therefore subject to regulation from the Public Utility Commissions in each state.

## Intellectual Properties

In addition to other methods of protecting our proprietary technology, know-how and show-how as well as trade secrets, we pursue a policy of seeking patent protection, both in the US and abroad, for our proprietary technologies including those in EECP®, Biox™ and MobiCare™ products.

We own eleven US patents including eight utility patents and three design patents that expire at various times through 2023. We will from time to time file other patent applications regarding specific enhancements to the current EECP® models, future generation products, and methods of treatment in the future. Moreover, trademarks have been registered for the names "Vaso", "EECP", "AngioNew", "Natural Bypass", "Vasomedical", "Vasomedical EECP", "VasoGlobal", "VasoSolutions", "VasoHealthcare".

Through our China-based subsidiaries, we own thirteen invention and utility patents that expire at various times through 2024, as well as eight software copyright certificates in China related to proprietary technologies in physiological data acquisition, analysis and reporting. We also have ten registered trademarks in China for our products.

Through our Netwolves subsidiary we hold a patent for Secure and Remote Monitoring Management ("SRM") and we hold trademarks "NetWolves", "SRM", and "Wolfpac".

There can be no assurance that our patents will not be violated or that any issued patents will provide protection that has commercial significance. As with any patented technology, litigation could be necessary to protect our patent position. Such litigation can be costly and time-consuming, and there can be no assurance that we will be successful.

## Employees

As of December 31, 2016, we employed 311 full-time persons, of which 19 are employed through our facility in Plainview, New York, 81 through VasoHealthcare, 12 through VasoHealthcare IT, 127 through our Netwolves operations, and 72 in our China operations. None of our employees are represented by a labor union. We believe that our employee relations are good.

The Company also uses several part-time employees and consultants from time to time for various purposes.

## Manufacturing

The Company conducts its manufacturing activities primarily through LET and Biox facilities in China, while maintaining certain manufacturing capability in the Plainview, NY location to satisfy certain domestic and international needs for the EECP<sup>®</sup> systems. LET manufactures EECP<sup>®</sup> systems and Biox manufactures ambulatory monitoring devices and other medical devices.

All manufacturing operations are conducted under the cGMP requirements as set forth in the FDA Quality System Regulation as well as ISO 13485 standard, the international quality standard for medical device manufacturers. We are also certified to conform to full quality assurance system requirements of the EU Medical Device Directive and can apply CE marking to all of our current product models. Lastly, we are certified to comply with the requirements of the Canadian Medical Device Regulations (CMDR). All these regulations and standards subject us to inspections to verify compliance and require us to maintain documentation and controls for the manufacturing and quality activities.

We believe our manufacturing capacity and warehouse facility are adequate to meet the current and immediately foreseeable future demand for the production of our medical devices. We believe our suppliers of the other medical devices we distribute or represent are capable of meeting our demand for the foreseeable future.

## ITEM 1A - RISK FACTORS

Investing in our common stock involves risk. You should carefully consider the following information about these risks together with the other information contained in this Annual Report on Form 10-K. If any of the following risks actually occur, our business could be harmed. This could cause the price of our stock to decline, and you may lose part or all of your investment.

### Financial Risks

#### **Achieving profitable operations is dependent on several factors.**

Our ability to achieve and sustain profitability is dependent on many factors, primarily being the sufficient and timely generation and recognition of revenue in our professional sales services segment, attaining profitability in our IT segment, the success of our marketing, sales and cost reduction efforts in the equipment segment, as well as the success of our other strategic initiatives, including our China acquisitions.

### Risks Related to Our Business

#### **We currently derive a significant amount of our revenue and net income from our agreement with GEHC.**

On May 19, 2010, we signed a sales representation agreement with GEHC. Under the GEHC Agreement, we have been appointed the exclusive representative for these products to specific market segments in the 48 contiguous states of the United States and the District of Columbia. The GEHC Agreement had an initial term of three years commencing July 1, 2010 and in 2012 was extended for two additional years to June 30, 2015. In December 2014, the agreement was extended again through December 31, 2018, subject to earlier termination under certain circumstances including the right by GEHC to terminate without cause with certain conditions.

A significant amount of our revenue and net income arise from activities under this contract. Moreover, our growth depends partially on the territories, customer segments and product modalities assigned to us by GEHC, and thus relies on our ability to demonstrate our added value as a channel partner, and maintaining a positive relationship with GEHC. There is no assurance that the agreement will be renewed before it expires or terminated prior to its expiration pursuant to its termination provisions. Should GEHC terminate or not renew the agreement, it would have a material adverse effect on our financial condition and results of operations.

**We face competition from other companies and technologies.**

In all segments of our business we compete with other companies that market technologies, products and services in the global marketplace. We do not know whether these companies, or other potential competitors who may succeed in developing technologies, products or services that are more efficient or effective than those offered by us, and that would render our technology and existing products obsolete or non-competitive. Potential new competitors may also have substantially greater financial, manufacturing and marketing resources than those possessed by us. In addition, other technologies or products may be developed that have an entirely different approach or means of accomplishing the intended purpose of our products. Accordingly, the life cycles of our products are difficult to estimate. To compete successfully, we must keep pace with technological advancements, respond to evolving consumer requirements and achieve market acceptance.

**We depend on management and other key personnel.**

We are dependent on a limited number of key management and technical personnel. The loss of one or more of our key employees may harm our business if we are unable to identify other individuals to provide us with similar services. We do not maintain "key person" insurance on any of our employees. In addition, our success depends upon our ability to attract and retain additional highly qualified management, sales, IT, manufacturing and research and development personnel in our various operations. The competition for IT personnel is intense.

**We may not continue to receive necessary FDA clearances or approvals, which could hinder our ability to market and sell certain products.**

If we modify our medical devices and the modifications significantly affect safety or effectiveness, or if we make a change to the intended use, we will be required to submit a new premarket notification (510(k)) or premarket approval (PMA) application to FDA. We would not be able to market the modified device in the U.S. until FDA issues a clearance for the 510(k).

If we offer new products that require 510(k) clearance or a PMA, we will not be able to commercially distribute those products until we receive such clearance or approval. Regulatory agency approval or clearance for a product may not be received or may entail limitations on the device's indications for use that could limit the potential market for the product. Delays in receipt of, or failure to obtain or maintain, regulatory clearances and approvals, could delay or prevent our ability to market or distribute our products. Such delays could have a material adverse effect on our equipment business.

**If we are unable to comply with applicable governmental regulations, we may not be able to continue certain of our operations.**

As a reseller of telecommunication services and network solutions provider, our products and services are subject to federal, state and local regulations. These regulations govern, in part, our rates and the way we conduct our business, including the requirement to offer telecommunications services pursuant to nondiscriminatory rates, terms, and conditions, the obligation to safeguard the confidentiality of customer proprietary network information, as well as the obligation to maintain specialized records and file reports with the Federal Communications Commission and state regulatory authorities. While we believe we are in compliance with laws and regulations in jurisdictions where we do business, we must continue to monitor and assess our compliance.

We also must comply with current Good Manufacturing Practice requirements as set forth in the Quality System Regulation to receive US FDA approval to market new products and to continue to market current products. Most states also have similar regulatory and enforcement authority for medical devices.

Our operations in China are also subject to the laws of the People's Republic of China with which we must be in compliance in order to conduct these operations.

We are subject to various federal, state and local laws targeting fraud and abuse in the healthcare industry, including anti-kickback and false claims laws.

We cannot predict the nature of any future laws, regulations, interpretations, or applications, nor can we predict what effect additional governmental regulations or administrative orders, either domestically or internationally, when and if promulgated, would have on our business in the future. We may be slow to adapt, or we may never adapt to changes in existing requirements or adoption of new requirements or policies. We may incur significant costs to comply with laws and regulations in the future or compliance with laws or regulations may create an unsustainable burden on our business.

**We have foreign operations and are subject to the associated risks of doing business in foreign countries.**

The Company continues to have operations in China. Operating internationally involves additional risks relating to such things as currency exchange rates, different legal and regulatory environments, political, economic risks relating to the stability or predictability of foreign governments, differences in the manner in which different cultures do business, difficulties in staffing and managing foreign operations, differences in financial reporting, operating difficulties, and other factors. The occurrence of any of these risks, if severe enough, could have a material adverse effect on the consolidated financial position, results of operations and cash flows of the Company.

Commercial law is still developing in China and there are limited legal precedents to follow in commercial transactions. There are many tax jurisdictions each of which may have changing tax laws. Applicable taxes include value added taxes ("VAT"), corporate income tax, and social (payroll) taxes. Regulations are often unclear. Tax declarations (reports) are subject to review and taxing authorities may impose fines, penalties and interest. These facts create risks for our operations in China.

**We depend on several suppliers for the supply of certain products.**

As a GEHC channel partner, we could be negatively impacted by interruptions or delays to equipment installations, production and quality issues, and any customer concerns related to GEHC. With respect to our proprietary medical products we now manufacture our own products primarily through our China based facilities, and we depend on certain independent suppliers for parts, components and certain finished goods.

**We may not have adequate intellectual property protection.**

Our patents and proprietary technology may not be able to prevent competition by others. The validity and breadth of claims in technology patents involve complex legal and factual questions. Future patent applications may not be issued, the scope of any patent protection may not exclude competitors, and our patents may not provide competitive advantages to us. Our patents may be found to be invalid and other companies may claim rights in or ownership of the patents and other proprietary rights held or licensed by us. Also, our existing patents may not cover products that we develop in the future. Moreover, when our patents expire, the inventions will enter the public domain. There can be no assurance that our patents will not be violated or that any issued patents will provide protection that has commercial significance. Litigation may be necessary to protect our patent position. Such litigation may be costly and time-consuming, and there can be no assurance that we will be successful in such litigation.

**The loss or violation of certain of our patents and trademarks could have a material adverse effect upon our business.**

Since patent applications in the United States are maintained in secrecy until such patent applications are issued, our current product development may infringe patents that may be issued to others. If our products were found to infringe patents held by competitors, we may have to modify our products to avoid infringement, and it is possible that our modified products would not be commercially successful.

**Risks Related to Our Industries**

**Our growth could suffer if the markets into which we sell products decline, do not grow as anticipated or experience cyclicalities.**

Our growth depends in part on the growth of the IT and healthcare markets which we serve. In our professional sales services segment, our quarterly sales and profits depend significantly on the volume and timing of orders installed during the quarter, and the installation of such orders is difficult to forecast. Product demand is dependent upon the customer's capital spending budget as well as government funding policies, and matters of public policy as well as product and economic cycles that can affect the spending decisions of these entities. These factors could adversely affect our growth, financial position, and results of operations.

**Technological change is difficult to predict and to manage.**

We face the challenges that are typically faced by companies in the IT and medical device fields. Our products and services may require substantial development efforts and compliance with governmental clearance or approval requirements. We may encounter unforeseen technological or scientific problems that force abandonment or substantial change in the development of a specific product or process.

**We are subject to product liability claims and product recalls that may not be covered by insurance.**

The nature of our manufacturing operations exposes us to risks of product liability claims and product recalls. Medical devices as complex as ours frequently experience errors or failures, especially when first introduced or when new versions are released.

We currently maintain product liability insurance at \$5,000,000 per occurrence and \$6,000,000 in the aggregate. Our product liability insurance may not be adequate. In the future, insurance coverage may not be available on commercially reasonable terms, or at all. In addition, product liability claims or product recalls could damage our reputation even if we have adequate insurance coverage.

**We do not know the effects of healthcare reform proposals.**

The healthcare industry is undergoing fundamental changes resulting from political, economic and regulatory influences. In the United States, the Affordable Care Act is designed to provide increased access to healthcare for the uninsured, control the escalation of healthcare expenditures within the economy and use healthcare reimbursement policies to balance the federal budget.

The United States Congress is currently reviewing and assessing the Affordable Care Act ("ACA") and a healthcare bill seeking to materially change the ACA. We expect that there will continue to be a number of federal and state proposals to constrain expenditures for medical products and services, which may affect payments for products such as ours. We cannot predict which, if any of such proposals will be adopted and when they might be effective, or the effect these proposals may have on our business. Other countries also are considering health reform. Significant changes in healthcare systems could have a substantial impact on the manner in which we conduct our business and could require us to revise our strategies.

**Risks Related to our Securities**

**The application of the "penny stock" rules could adversely affect the market price of our common stock and increase your transaction costs to sell those shares.**

As long as the trading price of our common shares is below \$5 per share, the open-market trading of our common shares will be subject to the "penny stock" rules. The "penny stock" rules impose additional sales practice requirements on broker-dealers who sell securities to persons other than established customers and accredited investors (generally those with assets in excess of \$1,000,000 or annual income exceeding \$200,000 or \$300,000 together with their spouse). For transactions covered by these rules, the broker-dealer must make a special suitability determination for the purchase of securities and have received the purchaser's written consent to the transaction before the purchase. Additionally, for any transaction involving a penny stock, unless exempt, the broker-dealer must deliver, before the transaction, a disclosure schedule prescribed by the Securities and Exchange Commission relating to the penny stock market. The broker-dealer also must disclose the commissions payable to both the broker-dealer and the registered representative and current quotations for the securities. Finally, monthly statements must be sent disclosing recent price information on the limited market in penny stocks. These additional burdens imposed on broker-dealers restrict the ability and decrease the willingness of broker-dealers to sell our common shares, which we believe results in decreased liquidity for our common shares as well as increased transaction costs for sales and purchases of our common shares as compared to other securities.

**Our common stock is subject to price volatility.**

The market price of our common stock historically has been and may continue to be highly volatile. Our stock price could be subject to wide fluctuations in response to various factors beyond our control, including, but not limited to:

- medical reimbursement;
- quarterly variations in operating results;
- announcements of technological innovations, new products or pricing by our competitors;
- the timing of patent and regulatory approvals;
- the timing and extent of technological advancements;
- the sales of our common stock by affiliates or other shareholders with large holdings; and
- general market conditions.

Our future operating results may fall below the expectations of securities industry analysts or investors. Any such shortfall could result in a significant decline in the market price of our common stock. In addition, the stock market has experienced significant price and volume fluctuations that have affected the market price of the stock of many medical device companies and that often have been unrelated to the operating performance of such companies. These broad market fluctuations may directly influence the market price of our common stock.

**We do not intend to pay dividends in the foreseeable future.**

We do not intend to pay any cash dividends on our common stock in the foreseeable future.

**Additional Information**

We are subject to the reporting requirements under the Securities Exchange Act of 1934 and are required to file reports and information with the Securities and Exchange Commission (SEC), including reports on the following forms: annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports files or furnished pursuant to Section 13(a) or 15(d) of the Securities Act of 1934.

**ITEM 2 – PROPERTIES**

In September 2015, we relocated our headquarters to an 8,700 square foot facility at 137 Commercial Street, Plainview, New York 11803, under a lease with a term that expires on September 15, 2022 and with a base annual rental of approximately \$65,000. The Company's NetWolves unit leases an 11,700 square foot facility in Tampa, Florida, under a lease expiring in May 2017 with an annual rental of approximately \$124,000. VHC-IT leases a 2,400 square foot facility in Nashville, Tennessee pursuant to a one-year lease expiring April 2017 with an annual rental of \$31,000. The Company is evaluating possible renewal options and believes sufficient space is available at similar cost in both Tampa and Nashville. We believe that our current facilities are adequate for foreseeable current and future needs.

We also lease approximately 1,500 square feet of office space in New York City under a lease that expires on May 31, 2017. The Company is evaluating its options for maintaining office space in New York City. The annual rent and utility charge for this lease is approximately \$42,000.

We lease our engineering and production facilities in China. Specifically, we lease approximately 12,750 square feet under leases expiring in August 2017, September 2017, and December 2020 at an aggregate annual cost of approximately \$58,000 in Wuxi, China and approximately 11,000 square feet under a lease that expired in April 2016 but continues on a month to month basis, at an annual cost of approximately \$29,000 in Foshan, China. Such leases are renewable upon expiration.

## PART II

### ITEM 5 – MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock currently trades on the OTC Market under the symbol VASO. The number of record holders of common stock as of March 24, 2017, was approximately 970, which does not include approximately 8,500 beneficial owners of shares held in the name of brokers or other nominees. The table below sets forth the range of high and low trade prices of the common stock for the fiscal periods specified.

	Year ended December 31, 2016		Year ended December 31, 2015	
	High	Low	High	Low
First quarter	\$ 0.19	\$ 0.16	\$ 0.20	\$ 0.16
Second quarter	\$ 0.18	\$ 0.15	\$ 0.20	\$ 0.16
Third quarter	\$ 0.17	\$ 0.13	\$ 0.22	\$ 0.16
Fourth quarter	\$ 0.16	\$ 0.11	\$ 0.20	\$ 0.16

The last bid price of the Company's common stock on March 24, 2017, was \$0.12 per share.

#### Dividend Policy

We have never paid any cash dividends on our common stock and do not intend to pay cash dividends in the foreseeable future.

### ITEM 7 – MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

*This Management's Discussion and Analysis of Financial Condition and Results of Operations contains descriptions of our expectations regarding future trends affecting our business. These forward looking statements and other forward-looking statements made elsewhere in this document are made under the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Please read the section titled "Risk Factors" in "Item One – Business" to review certain conditions, among others, which we believe could cause results to differ materially from those contemplated by the forward-looking statements.*

*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 IT and healthcare; continuation of the GEHC agreements; the impact of competitive technology 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; and the risk factors reported from time to time in the Company's SEC reports. The Company undertakes no obligation to update forward-looking statements as a result of future events or developments.*

*The following discussion should be read in conjunction with the financial statements and notes thereto included in this Annual Report on Form 10-K.*

## Overview

Vaso Corporation (formerly Vasomedical, Inc.) ("Vaso") was incorporated in Delaware in July 1987. We principally operate in three distinct business segments in the healthcare equipment 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 large OEMs into the health provider middle market; and
- Equipment segment, operating through wholly-owned subsidiaries Vasomedical Global Corp. and Vasomedical Solutions, 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"), to address a major issue facing healthcare IT industry. It currently consists of a managed network and security service division, NetWolves, and a healthcare IT application VAR (value added reseller) division, VasoHealthcare IT. Its current offering includes:

- 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 (partner with major cybersecurity technologies firms including IBM and Palo Alto).

VasoTechnology uses a combination of proprietary technology, methodology and best-in-class 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 General Electric Healthcare ("GEHC"), which is the healthcare business division of the General Electric Company ("GE"), to further 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 offering consists of:

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

VasoHealthcare has built a team of approximately 80 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 Global and Vasomedical Solutions*

Vasomedical Global was formed in 2011 to combine and coordinate the various design, development manufacturing, and sales operations of medical devices acquired by the Company. These devices primarily consist of cardiovascular diagnostic and therapeutic systems. Its current offering consists 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 systems, used for non-invasive, outpatient treatment of ischemic heart disease.

This segment uses its extensive cardiovascular device knowledge coupled with its engineering resources to cost effectively create and market its proprietary technology. It sells and services its products to domestic customers directly and sells and services its products in the international market through a global joint venture arrangement.

### **Strategic Plan and Objectives**

Our short- and long-term plans for the growth of the Company and to increase stockholder value are:

- Continue to expand our product and service offerings as well as market penetration of our healthcare IT business.
- Expand our managed network services business into the healthcare market through our healthcare IT business and through the introduction of additional functionality to our existing capabilities.
- Build our brand name in the healthcare provision middle market with the goal of establishing our technology platform and managed services methodology as the standard for secure, efficient use of equipment and applications ecosystems.
- Maintain and improve business performance in our professional sales service segment by increasing market penetration of the GE Healthcare product modalities we represent, and possibly building new teams to represent other vendors.
- Maintain and grow our equipment business by continuing to align the cost structure with revenue growth and increasing our efforts to grow international sales of all our device offerings.
- Continue to seek partnership and acquisition opportunities.

## Results of Operations – For the Years Ended December 31, 2016 and 2015

Total revenues increased by \$15,507,000, or 27%, to \$72,589,000 in the year ended December 31, 2016, from \$57,082,000 in the year ended December 31, 2015. We reported net income of \$820,000 for the year ended December 31, 2016 as compared to net income of \$3,823,000 for the year ended December 31, 2015, a decrease of \$3,003,000 or 79%. The decrease was primarily due to lower delivery volume of GEHC equipment in 2016, which led to a decrease in the professional sales service revenue and profit. Our net income was \$0.01 per basic and diluted common share for the year ended December 31, 2016 as compared to net income of \$0.02 per basic and diluted common share for the year ended December 31, 2015.

### *Revenues*

Revenue in the IT segment was \$39,448,000 for the year ended December 31, 2016 as compared to \$21,149,000 for the prior year, an increase of \$18,299,000, of which \$16,899,000 was attributable to the inclusion of a full year of NetWolves operations in 2016 versus the seven months of operations in 2015 subsequent to its acquisition on May 29, 2015, and \$1,400,000 year-over-year growth in VHC-IT revenues. At December 31, 2016 VHC-IT had an order backlog exceeding \$7.4 million.

Commission revenues in the professional sales service segment (formerly the "sales representation" segment) decreased by \$3,060,000, or 10%, to \$28,524,000 in the year ended December 31, 2016, as compared to \$31,584,000 in the year ended December 31, 2015. The decrease was primarily due to lower volume of GEHC equipment delivery in 2016, as well as lower blended commission rates for the equipment delivered in 2016. As discussed in Note B to the financial statements, the Company defers recognition of commission revenue until the underlying equipment is delivered. As of December 31, 2016, the Company recorded on its consolidated balance sheet \$18,504,000 of deferred commission revenue, of which \$11,394,000 is long-term, compared to \$17,369,000 of deferred commission revenue at December 31, 2015, of which \$8,525,000 was long-term, an increase of \$1,135,000 or 7%. The increase in deferred revenue is due principally to higher total orders booked during the year and the decrease in equipment deliveries over the same period.

Revenue in our equipment segment increased 6% to \$4,617,000 for the year ended December 31, 2016 from \$4,349,000 for the year ended December 31, 2015, as a result of an increase in equipment sales of \$403,000, or 14%, to \$3,364,000 for the year ended December 31, 2016 as compared to \$2,961,000 for the year ended December 31, 2015, offset by a decrease in equipment rentals and services revenue of \$135,000, or 10%, to \$1,253,000 in the year ended December 31, 2016 from \$1,388,000 in the year ended December 31, 2015. The increase in equipment sales is due primarily to higher sales of Biox series and related products as well as an 11% increase in EECF<sup>®</sup> sales, resulting from higher average selling prices. We anticipate that EECF<sup>®</sup> sales will continue to improve in foreign markets as our VSK joint venture, which began operations in 2015, expands into new international markets. The decrease in revenue generated from equipment rentals and services is due primarily to decreased service contract revenues. As of December 31, 2016, the Company recorded on its consolidated balance sheet \$900,000 of deferred revenue, of which \$382,000 is long-term, compared to \$1,147,000 of deferred revenue at December 31, 2015, of which \$511,000 was long-term, a decrease of \$247,000 or 22%. The decrease in deferred revenue is due principally to lower volume of service contracts sold during the year.

### *Gross Profit*

The Company recorded gross profit of \$41,502,000, or 57% of revenue, for the year ended December 31, 2016, compared to \$35,367,000, or 62% of revenue, for the year ended December 31, 2015. The increase of \$6,135,000, or 17%, was due primarily to a \$7,690,000 increase in the IT segment, arising mainly from the inclusion of twelve months of NetWolves operations in 2016 versus seven months of operations in 2015, and \$626,000 higher gross profit in the equipment segment resulting from both higher revenues and higher gross profit rates, partially offset by a \$2,181,000 decrease in the professional sales service segment, driven primarily by lower revenues.

IT segment gross profit increased to \$16,303,000, or 41% of segment revenues, for the year ended December 31, 2016 as compared to \$8,613,000, or 41% of segment revenues, in the prior year, an increase of \$7,690,000, of which \$7,366,000 was attributable to the inclusion of a full year of NetWolves operations in 2016 and \$324,000 was attributable to VHC IT.

Professional sales service segment gross profit was \$22,351,000, or 78% of the segment revenues, for the year ended December 31, 2016, a decrease of \$2,181,000, or 9%, from segment gross profit of \$24,532,000, or 78% of the segment revenue, for the year ended December 31, 2015. The decrease in gross profit was due primarily to lower recognized revenue in 2016 as a result of a decrease in equipment delivery volume as well as by lower blended commission rates on the equipment delivered during the year. Cost of commissions decreased by \$879,000, or 12%, to \$6,173,000 for the year ended December 31, 2016, as compared to cost of commissions of \$7,052,000 in 2015. The decrease is also due primarily to lower delivery volume. Cost of commissions reflects 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 earned.

Equipment segment gross profit increased to \$2,848,000, or 62% of equipment segment revenues, for the year ended December 31, 2016 compared to \$2,222,000, or 51% of equipment segment revenues, for the year ended December 31, 2015, due to higher sales volume, higher average selling prices and, in 2015, the write-off of excess inventory. Equipment segment gross profits are dependent on a number of factors including the mix of products sold, their respective models and average selling prices, the ongoing costs of servicing EECP® systems, as well as certain fixed period costs, including facilities, payroll and insurance.

#### *Operating Income*

Operating income was \$1,564,000 for the year ended December 31, 2016 compared to \$3,939,000 for the year ended December 31, 2015, a decrease of \$2,375,000, or 60%. The decrease was primarily attributable to the decrease in operating income in the professional sales service segment from \$10,024,000 in the year ended December 31, 2015 to \$7,217,000 in that segment in the year ended December 31, 2016. The 2016 professional sales service segment operating income reflected the impact of both lower gross profit and higher operating costs. IT segment operating loss increased to \$3,227,000 for the year ended December 31, 2016 from \$1,930,000 for the prior year, an increase of \$1,297,000. The increase was primarily attributable to a \$1,119,000 higher operating loss primarily due to increased spending on infrastructure and engineering effort, and to higher sales expenses incurred in building its order backlog for future delivery. The healthcare IT VAR business is still in its early stages of growth; however, we anticipate that as the backlog increases and converts to revenue we will see significant improvement in operating performance. Equipment segment operating loss in the year ended December 31, 2016 was \$1,064,000, as compared to an operating loss of \$2,444,000 in the year ended December 31, 2015. The decrease in the equipment segment operating loss was primarily due to lower operating expenses resulting from our cost reduction efforts, as well as to improved gross profit.

Selling, general and administrative (SG&A) expenses for the years ended December 31, 2016 and 2015 were \$39,408,000, or 54% of revenues, and \$30,913,000, or 54% of revenues, respectively, reflecting an increase of \$8,495,000 or approximately 27%. The increase in SG&A expenditures in the year ended December 31, 2016 resulted primarily from a \$8,988,000 increase in the IT segment, of which \$8,485,000 was attributable to the inclusion of twelve months of NetWolves costs in 2016 instead of seven months in 2015, and \$624,000 higher costs in the professional sales service segment, partially offset by lower corporate expenses reflecting non-recurring 2015 costs associated with the NetWolves acquisition, and lower sales and marketing costs in the equipment segment.

Research and development (R&D) expenses of \$530,000, or 1% of revenues (or 11% of equipment segment revenues), for the year ended December 31, 2016 increased by \$15,000, or 3%, from \$515,000, or 1% of revenues (or 12% of equipment segment revenues), for the year ended December 31, 2015. The increase is primarily attributable to higher new product development costs.

## Adjusted EBITDA

We define Adjusted EBITDA (earnings before interest, taxes, depreciation and amortization), which is a non-GAAP financial measure, as net income, plus interest expense, 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:

	<i>(in thousands)</i>	
	Year ended December 31,	
	2016	2015
Net income	\$ 820	\$ 3,823
Interest expense (income), net	634	160
Income tax expense	281	(44)
Depreciation and amortization	2,191	1,559
Share-based compensation	428	342
Adjusted EBITDA	<u>\$ 4,354</u>	<u>\$ 5,840</u>

Adjusted EBITDA decreased by \$1,486,000, or 25%, to \$4,354,000 in the year ended December 31, 2016 from \$5,840,000 in the year ended December 31, 2015. The decrease was primarily attributable to 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, and higher interest expense associated with the debt incurred to finance the NetWolves acquisition.

### *Other Income (Expense), Net*

Other income (expense), net for the year ended December 31, 2016 and 2015, was \$(463,000) and \$(160,000), respectively, an increase in net expense of \$303,000. The increase was due primarily to \$235,000 higher interest expense associated with the note issued in relation to the NetWolves acquisition and with NetWolves' debt that the Company assumed through the acquisition.

### *Income Tax Benefit (Expense), Net*

During the year ended December 31, 2016, we recorded income tax expense of \$281,000, as compared to income tax benefit of \$44,000 in the year ended December 31, 2015. The Company utilized \$0 and \$5.0 million in net operating loss carryforwards for the years ended December 31, 2016 and 2015, respectively. The change from income tax benefit in 2015 to income tax expense in 2016 arose primarily due to higher tax expense related to deferred tax liabilities arising from goodwill generated by the NetWolves acquisition and the release in 2015 of \$560,000 in deferred tax asset valuation allowance, partially offset by lower state income taxes and federal alternative minimum taxes. The Company has Net Operating Loss carryovers of approximately \$35 million at December 31, 2016.

Ultimate realization of any or all of the deferred tax assets is not assured due to significant uncertainties and material assumptions associated with estimates of future taxable income during the carry-forward period. The Company currently has significant deferred tax assets. During the year ended December 31, 2015, the Company reviewed previous positive and negative evidence and also reviewed its expected taxable income for future periods and concluded it is more likely than not that approximately \$560,000 of the tax benefit related to net operating loss carryforwards will be utilized, and, accordingly, has reduced the valuation allowance by \$560,000. It remains uncertain whether the Company will generate sufficient taxable income to completely utilize its net operating loss carryforwards.

## Liquidity and Capital Resources

### *Cash and Cash Flow – For the year ended December 31, 2016*

We have financed our operations and investment activities, including the NetWolves acquisition, from working capital and the proceeds from notes issued to MedTechnology Investments, LLC ("MedTech", see Item 13). At December 31, 2016, we had cash and cash equivalents of \$7,087,000 and negative working capital of \$567,000. \$5,711,000 in negative working capital at December 31, 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. At March 26, 2017 the Company's cash and cash equivalents were approximately \$7.8 million.

Cash provided by operating activities was \$5,215,000 during the year ended December 31, 2016, which consisted of net income after non-cash adjustments of \$4,226,000 and cash provided by changes in operating assets and liabilities of \$989,000. The changes in the account balances primarily reflect increases in accounts payable and accrued expenses and other liabilities of \$1,270,000 and \$1,055,000, respectively, partially offset by increases in accounts and other receivables and other assets of \$1,282,000 and \$983,000, respectively.

Cash used in investing activities during the year ended December 31, 2016 was \$2,250,000, of which \$1,866,000 was used for the purchase of equipment and software and \$422,000 was invested in the VSK joint venture.

Cash provided by financing activities during the year ended December 31, 2016 was \$1,919,000, primarily attributable to \$2,624,000 in borrowings on our line of credit, partially offset by \$304,000 in repayments of notes issued for equipment purchases and \$264,000 in net repayments of notes to related parties.

### *Liquidity*

We expect to continue to be profitable and generate positive cash flow through our existing operations. We will continue to pursue acquisitions and partnership opportunities in the international and domestic markets and will look to expand our business in all segments.

### **Off-Balance Sheet Arrangements**

We do not participate in transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities (SPES), which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As of December 31, 2016, we are not involved in any unconsolidated SPES or other off-balance sheet arrangements.

### **Effects of Inflation**

We believe that inflation and changing prices over the past two years have not had a significant impact on our revenue or on our results of operations.

### **Critical Accounting Policies and Estimates**

Note B of the Notes to Consolidated Financial Statements includes a summary of our significant accounting policies and methods used in the preparation of our financial statements. In preparing these financial statements, we have made our best estimates and judgments of certain amounts included in the financial statements, giving due consideration to materiality. The application of these accounting policies involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates. Our critical accounting policies and estimates are as follows:

The Company currently derives its revenues in the IT segment from two sources: (1) telecommunication and managed network services, which are comprised primarily of fixed monthly fees and variable usage charges; and (2) the resale to diagnostic imaging service providers of GEHC's PACS software solutions, which is comprised of software from GEHC and other vendors, hardware, related solution implementation services, and post-implementation customer support ("PCS"). We offer our customers the option to purchase our software solutions or to subscribe our solutions under a monthly Software as a Service ("SaaS") fee basis. Customers that purchase our software solutions may elect to purchase PCS, comprised of software license updates and product support contracts, which provide our customers with rights to unspecified product upgrades and maintenance releases issued during the support period, as well as technical support assistance and remote network monitoring.

Revenue Recognition for Multiple-Element Arrangements - Arrangements with Software and Non-software Elements

We enter into multiple-element arrangements that may include a combination of our various software related and non-software related products and services offerings including new software licenses, hardware, implementation services, PCS and monthly subscription-based SaaS solutions. In such arrangements, we first allocate the total arrangement consideration based on the relative selling prices of the software group of elements as a whole and to the non-software elements. We then further allocate consideration within the software group to the respective elements within that group following the guidance in ASC 985-605, "Software-Revenue Recognition" and allocate consideration within the non-software group to the respective elements within that group following the guidance in ASC 605-25, "Revenue Recognition, Multiple-Element Arrangements". After the arrangement consideration has been allocated to the elements, we account for each respective element in the arrangement as described below.

Revenue Recognition for Multiple-Element Arrangements - Software Products and Software Related Services (Software Arrangements)

We enter into arrangements with customers that purchase both software related products and software related services from us at the same time, or within close proximity of one another (referred to as software related multiple-element arrangements). Such software related multiple-element arrangements include the sale of our software products, implementation services, and PCS, whereby software license delivery is followed by the subsequent or contemporaneous delivery of the other elements. For those software related multiple-element arrangements, we have applied the residual method to determine the amount of new software license revenues to be recognized pursuant to ASC 985-605. Under the residual method, if fair value exists for undelivered elements in a multiple-element arrangement, such fair value of the undelivered elements is deferred with the remaining portion of the arrangement consideration generally recognized upon delivery of the software license. We allocate the fair value of each element of a software related multiple-element arrangement based upon its fair value as determined by our vendor specific objective evidence ("VSOE" as described further below), with any remaining amount allocated to the software license.

The basis for our software license revenue recognition is substantially governed by the accounting guidance contained in ASC 985-605. We exercise judgment and use estimates in connection with the determination of the amount of software and software related services revenues to be recognized in each accounting period. We recognize new software licenses revenues when: (1) we enter into a legally binding arrangement with a customer for the license of software; (2) we deliver the products; (3) the sale price is fixed or determinable and free of contingencies or significant uncertainties; (4) collection is probable; and (5) upon verification of installation and expiration of an acceptance period. Revenues that are not recognized at the time of sale because the foregoing conditions are not met are recognized when those conditions are subsequently met. Installation of the Company's software products may involve a certain amount of customer-specific implementation to enable the software product to function within the customer's operating environment (i.e., with the customer's information technology network and other hardware, with the customer's data interfaces and with the customer's administrative processes). With these software products, customers do not have full use of the software (i.e., functionality) until the software is installed as described above and functioning within the customer's operating environment. Therefore, the Company recognizes 100% of such software revenues upon verification of installation and expiration of an acceptance period, provided that all other criteria for revenue recognition have been met.

The vast majority of our software license arrangements include PCS, which is ordered at the customer's option and is recognized ratably over the term of the arrangement, typically three to five years. PCS provides customers with rights to unspecified software product upgrades, maintenance releases and patches released during the term of the support period, as well as remote network monitoring and technical support. PCS is generally priced as a percentage of the net new software licenses fees.

#### Revenue Recognition for Multiple-Element Arrangements – SaaS, Hardware and Implementation services (Non-software Arrangements)

We enter into arrangements with customers that purchase multiple nonsoftware related products and services from us within close proximity of one another (referred to as nonsoftware multiple-element arrangements). Each element within a non-software multiple-element arrangement is accounted for as a separate unit of accounting provided the services have value to the customer on a standalone basis. We consider a deliverable to have standalone value if the service is sold separately by us or another vendor or could be resold by the customer.

For our non-software multiple-element arrangements, we allocate revenue to each element based on a selling price hierarchy at the arrangement's inception. The selling price for each element is based upon the following selling price hierarchy: VSOE if available, third party evidence ("TPE") if VSOE is not available, or estimated selling price ("ESP") if neither VSOE nor TPE are available. When possible, we establish VSOE of selling price for deliverables in software and non-software multiple-element arrangements using the price charged for a deliverable when sold separately. TPE is established by evaluating similar and interchangeable competitor products or services in standalone arrangements with similarly situated customers. If we are unable to determine the selling price because VSOE or TPE does not exist, we determine ESP for the purposes of allocating the arrangement by reviewing several other external and internal factors including, but not limited to: historical transactions; pricing practices including discounting; and competition. The determination of ESP is made through consultation with and approval by our management, taking into consideration our pricing model and go-to-market strategy. As these strategies evolve, we may modify our pricing practices in the future, which could result in changes to our determination of VSOE, TPE and ESP. As a result, our future revenue recognition for multiple-element arrangements could differ materially from our results in the current period.

Our revenue recognition policy for non-software deliverables including SaaS and implementation services is based upon the accounting guidance contained in ASC 605-25, and we exercise judgment and use estimates in connection with the determination of the amount of SaaS and implementation service revenues to be recognized in each accounting period.

Revenues from the sales of our non-software elements are recognized when: (1) persuasive evidence of an arrangement exists; (2) we perform the services or deliver the product; (3) the sale price is fixed or determinable; (4) collection is reasonably assured; and (5) upon verification of installation and expiration of an acceptance period. Revenues that are not recognized at the time of sale because the foregoing conditions are not met are recognized when those conditions are subsequently met. Our arrangements are documented in a written contract signed by the customer, are non-cancelable, and do not contain refund-type provisions.

Our SaaS offerings provide deployment of our software and hardware and related IT monitoring infrastructure including PCS for a stated term that is hosted at our data center facilities or physically on-premises at customer facilities for a monthly subscription fee. Revenues for these SaaS offerings are generally recognized ratably over the contract term commencing with the date the service is made available to customers and all other revenue recognition criteria have been satisfied. The Company recognizes revenue for hardware and implementation services rendered upon verification of installation and expiration of an acceptance period.

#### *Revenue and Expense Recognition for the Professional Sales Service Segment*

We recognize commission revenue in the professional sales service segment when persuasive evidence of an arrangement exists, service has been rendered, the price is fixed or determinable and collectability is reasonably assured. These conditions are deemed to be met when the underlying equipment has been delivered and accepted at the customer site in accordance with the specific terms of the sales agreement. Consequently, amounts billable under the agreement with GE Healthcare in advance of the customer acceptance of the equipment are recorded as accounts receivable and deferred revenue in the Consolidated Balance Sheets. Similarly, commissions payable to our sales force related to such billings are recorded as deferred commission expense when the associated deferred revenue is recorded. Commission expense is recognized when the corresponding commission revenue is recognized.

#### *Revenue and Expense Recognition for the Equipment Segment*

In the United States, we recognize revenue from the sale of our medical equipment in the period in which we deliver the product to the customer. Revenue from the sale of our medical equipment to international markets is recognized upon shipment of the product to a common carrier, as are supplies, accessories and spare parts delivered to both domestic and international customers.

In most cases, revenue from domestic EECP<sup>®</sup> system sales is generated from multiple-element arrangements that require judgment in the areas of customer acceptance, collectability, the separability of units of accounting, and the fair value of individual elements. We follow the ASC 605-25 which outlines a framework for recognizing revenue from multi-deliverable arrangements. We determined that the domestic sale of our EECP<sup>®</sup> systems includes a combination of three elements that qualify as separate units of accounting: (1) EECP<sup>®</sup> equipment sale; (2) provision of in-service and training support consisting of equipment set-up and training provided at the customer's facilities; and (3) a service arrangement (usually one year), consisting of: service by factory-trained service representatives, material and labor costs, emergency and remedial service visits, software upgrades, technical phone support and preferred response times.

Each of these elements represent individual units of accounting as the delivered item has value to a customer on a stand-alone basis, objective and reliable evidence of fair value exists for undelivered items, and arrangements normally do not contain a general right of return relative to the delivered item. We determine fair value based on the price of the deliverable when it is sold separately, or based on third-party evidence, or based on estimated selling price. Assuming all other criteria for revenue recognition have been met, we recognize equipment sales and services revenue for: (1) EECP<sup>®</sup> equipment sales, when title transfers upon delivery; (2) in-service and training, following documented completion of the training; and (3) service arrangement, ratably over the service period, which is generally one year.

The Company also recognizes revenue generated from servicing EECP<sup>®</sup> systems that are no longer covered by the service arrangement, or by providing sites with additional training, in the period that these services are provided. Revenue related to future commitments under separately priced extended service agreements on our EECP<sup>®</sup> system are deferred and recognized ratably over the service period, generally ranging from one year to four years. Costs associated with the provision of in-service and training, service arrangements, and separately priced extended service agreements, including salaries, benefits, travel and spare parts, and equipment, are recognized in cost of equipment sales and services as incurred. Amounts billed in excess of revenue recognized are included as deferred revenue in the consolidated balance sheets.

#### *Inventories, net*

We value inventory at the lower of cost or estimated market, with cost being determined on a first-in, first-out basis. The Company often places EECP<sup>®</sup> systems and other medical device products at various field locations for demonstration, training, evaluation, and other similar purposes at no charge. The cost of these EECP<sup>®</sup> systems and other products is transferred to property and equipment and is amortized over the next two to five years. The Company records the cost of refurbished components of EECP<sup>®</sup> systems and critical components at cost plus the cost of refurbishment. The Company regularly reviews inventory quantities on hand, particularly raw materials and components, and records a provision for excess and slow moving inventory based primarily on existing and anticipated design and engineering changes to its products as well as forecasts of future product demand.

We comply with the provisions of ASC Topic 330, "Inventory". The statement clarifies that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) should be recognized as current-period charges and requires the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities.

## *Goodwill and Intangible Assets*

Goodwill represents the excess of cost over the fair value of net assets of businesses acquired. The Company accounts for goodwill under the guidance of the ASC Topic 350, "Intangibles: Goodwill and Other". Goodwill acquired in a purchase business combination and determined to have an indefinite useful life is not amortized, but instead tested for impairment, at least annually, in accordance with this guidance. The recoverability of goodwill is subject to an annual impairment test or whenever an event occurs or circumstances change that would more likely than not result in an impairment. The impairment test is based on the estimated fair value of the underlying businesses and performed in the fourth quarter of each year. Intangible assets consist of the value of customer contracts and relationships, patent and technology costs, and software. The cost of significant customer-related intangibles is amortized in proportion to estimated total related revenue; cost of other intangible assets is generally amortized on a straight-line basis over the asset's estimated economic life, which range from five to ten years. The Company capitalizes internal use software costs incurred during the application development stage. Costs related to preliminary project activities and post implementation activities are expensed as incurred.

## *Deferred Revenues*

For the professional sales service segment, amounts billable under the agreement with GE Healthcare in advance of customer acceptance of the equipment are recorded initially as deferred revenue, and commission revenue is subsequently recognized as customer acceptance of such equipment is reported to us by GEHC.

For the equipment segment, we record revenue on extended service contracts ratably over the term of the related contract period. In accordance with the provisions of ASC Topic 605, we defer revenue related to EEC<sup>®</sup> system sales for the fair value of installation and in-service training to the period when the services are rendered and for warranty obligations ratably over the service period, which is generally one year.

## *Income Taxes*

Deferred income taxes are recognized for temporary differences between financial statement and income tax bases of assets and liabilities and loss carry forwards for which income tax benefits are expected to be realized in future years. A valuation allowance is established, when necessary, to reduce deferred tax assets to the amount expected to be realized. In estimating future tax consequences, we generally consider all expected future events other than an enactment of changes in the tax laws or rates. Deferred tax assets are continually evaluated for realizability. To the extent our judgment regarding the realization of the deferred tax assets changes, an adjustment to the allowance is recorded, with an offsetting increase or decrease, as appropriate, in income tax expense. Such adjustments are recorded in the period in which our estimate as to the realizability of the assets changed that it is "more likely than not" that all of the deferred tax assets will be realized. The "more likely than not" standard is subjective and is based upon our estimate of a greater than 50% probability that the deferred tax asset will be realized.

The Company early adopted ASU 2015-17 (Topic 740), "Balance Sheet Classification of Deferred Taxes", which requires the presentation of deferred tax liabilities and assets as noncurrent within a classified statement of financial position.

We also comply with the provisions of the ASC Topic 740, "Income Taxes", which prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. Based on its analysis, the Company has determined that it has not incurred any liability for unrecognized tax benefits as of December 31, 2016 and December 31, 2015. The Company recognizes accrued interest and penalties related to unrecognized tax benefits as income tax expense. No amounts were accrued for the payment of interest and penalties at December 31, 2016 and December 31, 2015. Management is currently unaware of any issues under review that could result in significant payments, accruals or material deviations from its position.

## Recently Issued Accounting Pronouncements

Note B of the Notes to Consolidated Financial Statements includes a description of the Company's evaluation of recently issued accounting pronouncements.

## ITEM 8 - FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

## ITEM 9A - CONTROLS AND PROCEDURES

### Report on 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 December 31, 2016 and have concluded that the Company's disclosure controls and procedures were effective as of December 31, 2016.

### Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company as defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Internal control involves maintaining records that accurately represent our business transactions, providing reasonable assurance that receipts and expenditures of company assets are made in accordance with management authorization, and providing reasonable assurance that unauthorized acquisition, use or disposition of company assets that could have a material effect on our financial statements would be detected or prevented on a timely basis.

Because of its innate limitations, internal control over our financial statements is not intended to provide absolute guarantee that a misstatement can be detected or prevented on the statements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in condition, or that the degree of compliance with the policies or procedures may deteriorate.

Management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 COSO framework). A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.

Based on this evaluation and those criteria, the Company's CEO and CFO concluded that the Company's internal control over financial reporting was effective as of December 31, 2016.

This report does not include an attestation report of the Company's Independent Registered Public Accounting Firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's Independent Registered Public Accounting Firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only Management's report in this Annual Report.

### Changes in Internal Control over Financial Reporting

For the quarter ended December 31, 2016 there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### ITEM 9B – OTHER INFORMATION

The Company held its annual meeting of stockholders on November 9, 2016. At the meeting, the Company's shareholders voted to approve the following proposals:

1. The election of three directors in Class II - Behnam Movaseghi, Peter Castle, and Randy Hill - to hold office until the 2019 Annual Meeting of Stockholders;
2. An amendment to our Certificate of Incorporation, as amended, to change the name of the Company from Vasomedical, Inc. to Vaso Corporation;
3. An advisory vote to approve the compensation of the named executive officers; and,
4. The appointment of Marcum LLP as our independent registered public accountants for the year ending December 31, 2016.

Approved Proposals	Shareholder votes cast			
	For	Withheld	Against	Abstain
Election of Directors				
Behnam Movaseghi	91,412,904	5,571,155	-	-
Peter C. Castle	90,475,290	6,508,769	-	-
Randy Hill	90,323,140	6,660,919	-	-
Change of company name	137,957,378	-	3,384,270	214,230
Executive compensation	90,646,937	-	5,845,873	491,249
Appointment of public accountants	133,007,863	-	8,175,475	372,540

## ITEM 10 – DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

## Directors of the Registrant

As of March 25, 2017, the members of our Board of Directors are:

Name of Director	Age	Principal Occupation	Director Since
Joshua Markowitz (2)	61	Chairman of the Board and Director	June, 2015
David Lieberman	72	Vice Chairman of the Board and Director	February, 2011
Jun Ma	53	President, Chief Executive Officer and Director	June, 2007
Peter C. Castle	48	Chief Operating Officer and Director	August, 2010
Randy Hill	70	Director	April, 2013
Behnam Movaseghi (1) (2)	63	Director	July, 2007
Edgar Rios (1)	64	Director	February, 2011

(1) Member of the Audit Committee

(2) Member of Compensation Committee

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

**Joshua Markowitz** has been a director since June 2015, and was appointed Chairman of the Board of the Company in August 2016. Mr. Markowitz has been a practicing attorney in the State of New Jersey for in excess of 30 years. He is currently a senior partner in the New Jersey law firm of Markowitz O'Donnell, LLP. Mr. Markowitz is the brother-in-law of Mr. Simon Srybnik, who resigned his position as Chairman and director of the Company in August 2016.

**David Lieberman** has been a director of the Company and the Vice Chairman of the Board, since February 2011. Mr. Lieberman has been a practicing attorney in the State of New York for more than 40 years, specializing in corporation and securities law. He is currently a senior partner at the law firm of Beckman, Lieberman & Barandes, LLP, which performs certain legal services for the Company and its subsidiaries. Mr. Lieberman is a former Chairman of the Board of Herley Industries, Inc., which was sold in March, 2011.

**Jun Ma, PhD**, has been a director since June 2007 and was appointed President and Chief Executive Officer of the Company on October 16, 2008. Dr. Ma has held various positions in academia and business, and prior to becoming President and CEO of the Company, had provided technology and business consulting services to several domestic and international companies in aerospace, automotive, biomedical, medical device, and other industries, including Kerns Manufacturing Corp. and Living Data Technology Corp., both of which are stockholders of our Company. Dr. Ma received his PhD degree in mechanical engineering from Columbia University, MS degree in biomedical engineering from Shanghai University, and BS degree in precision machinery and instrumentation from University of Science and Technology of China.

**Peter Castle** has been a director since August 2010 and was appointed the Chief Operating Officer of the Company after the NetWolves acquisition in June 2015. Prior to the acquisition, Mr. Castle was the President and Chief Executive Officer of NetWolves Network Services, LLC, where he has been employed since 1998. At NetWolves, Mr. Castle also held the position of Chief Financial Officer from 2001 until October 2009, Vice President of Finance since January 2000, Controller from August 1998 until December 1999 and Treasurer and Secretary from August 1999.

**Randy Hill** joined the Company as Senior Vice President of Vasomedical and Chief Executive Officer of VasoHealthcare on July 30, 2012 and served in that position through December 31, 2015. He is currently Chairman of our VasoHealthcare subsidiary and a consultant to the Company. Prior to joining Vasomedical, Mr. Hill was, until May 2011, interim Chief Executive Officer of Siemens Healthcare USA, the U.S. organization of the healthcare sector of Siemens AG (NYSE:SI), a German multinational conglomerate. For several years prior to that, Mr. Hill was Chief Operating Officer of Siemens Healthcare USA. In addition to his career at Siemens Healthcare spanning several decades in a wide range of roles with many different responsibilities, Mr. Hill, as a recognized leader in the medical imaging business, is also former Chair of the Board of Medical Imaging & Technology Alliance (MITA), the leading organization and collective voice of medical imaging equipment manufacturers, innovators, and product developers.

**Behnam Movaseghi, CPA**, has been a director since July 2007. Mr. Movaseghi has been treasurer of Kerns Manufacturing Corporation since 2000, and controller from 1990 to 2000. For approximately ten years prior thereto Mr. Movaseghi was a tax and financial consultant. Mr. Movaseghi is a Certified Public Accountant.

**Edgar G. Rios** has been a director of the Company since February 2011. Mr. Rios currently is President of Edgary Consultants, LLC. and was appointed a director in conjunction with the Company's prior consulting agreement with Edgary Consultants, LLC. Mr. Rios is co-founder and managing director of Wenzel Capital Partners, a venture capital and private equity firm. Mr. Rios was a co-founder, Executive Vice President, General Counsel, Secretary, and Director of AmeriChoice Corporation from its inception in 1989 through its acquisition by UnitedHealthcare in 2002. Prior to co-founding AmeriChoice, Mr. Rios was a co-founder of a number of businesses that provided technology services and non-technology products to government purchasers. Over the years, Mr. Rios also has been an investor, providing seed capital to various technology and nontechnology start-ups. Mr. Rios also serves as a member of the Board of Trustees of Meharry Medical School and as a director and secretary of the An-Bryce Foundation. Mr. Rios holds a J.D. from Columbia University Law School and an A.B. from Princeton University.

## **Committees of the Board of Directors**

### *Executive Committee*

The primary purpose of the Executive Committee was to function when the Board of Directors was not in session. During the intervals between meetings of the Board, the Committee had the powers of the Board, except as limited by Delaware statute. The Executive Committee was terminated in August 2016.

### *Audit Committee and Audit Committee Financial Expert*

The Board has a standing Audit Committee. The Board has affirmatively determined that each director who serves on the Audit Committee is independent, as the term is defined by applicable Securities and Exchange Commission ("SEC") rules. During the year ended December 31, 2016, the Audit Committee consisted of Edgar Rios, committee chair since May 2015, and Behnam Movaseghi, who joined the committee in November 2011. The members of the Audit Committee have substantial experience in assessing the performance of companies, gained as members of the Company's Board of Directors and Audit Committee, as well as by serving in various capacities in other companies or governmental agencies. As a result, they each have an understanding of financial statements. The Board believes that Behnam Movaseghi fulfills the role of the financial expert on this committee.

The Audit Committee regularly meets with our independent registered public accounting firm without the presence of management.

The Audit Committee operates under a charter approved by the Board of Directors. The Audit Committee charter is available on our website.

Our Compensation Committee annually establishes, subject to the approval of the Board of Directors and any applicable employment agreements, the compensation that will be paid to our executive officers during the coming year, as well as administers our stock-based benefit plans. During the year ended December 31, 2016, the Compensation Committee consisted of Joshua Markowitz, committee chair, and Behnam Movaseghi. None of these persons have been officers or employees of the Company at the time of their position on the committee, or, except as otherwise disclosed, had any relationship requiring disclosure herein.

The Compensation Committee operates under a charter approved by the Board of Directors. The Compensation Committee charter is available on our website.

#### MEETINGS OF THE BOARD OF DIRECTORS AND COMMITTEES

During the year ended December 31, 2016 there were:

- 4 meetings of the Board of Directors
- 4 meetings of the Audit Committee
- 1 meeting of the Executive Committee
- 3 meetings of the Compensation Committee

#### Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires directors, executive officers and persons who beneficially own more than 10% of our common stock (collectively, "Reporting Persons") to file initial reports of ownership and reports of changes in ownership of our common stock with the SEC. Reporting Persons are required by SEC regulations to furnish us with copies of all Section 16(a) reports they file. To our knowledge, based solely on our review of the copies of such reports received or written representations from certain Reporting Persons that no other reports were required, we believe that during the year ended December 31, 2016 all Reporting Persons timely complied with all applicable filing requirements.

#### Corporate Governance - Code of Ethics

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

#### Executive Officers of the Registrant

As of March 25, 2017 our executive officers are:

Name of Officer	Age	Position held with the Company
Jun Ma, PhD	53	President, Chief Executive Officer
Peter C. Castle	48	Chief Operating Officer
Michael J. Beecher	72	Chief Financial Officer and Secretary
Jonathan P. Newton	56	Vice President of Finance and Treasurer

**Michael J. Beecher, CPA**, joined the Company as Chief Financial Officer in September 2011. Prior to joining Vasomedical, Mr. Beecher was Chief Financial Officer of Direct Insite Corp., a publicly held company, from December 2003 to September 2011. Prior to his position at Direct Insite, Mr. Beecher was Chief Financial Officer and Treasurer of FiberCore, Inc., a publicly held company in the fiber-optics industry. From 1989 to 1995 he was Vice-President Administration and Finance at the University of Bridgeport. Mr. Beecher began his career in public accounting with Haskins & Sells, an international public accounting firm. He is a graduate of the University of Connecticut, a Certified Public Accountant and a member of the American Institute of Certified Public Accountants.

**Jonathan P. Newton** served as Chief Financial Officer of the Company from September 1, 2010 to September 8, 2011, and is currently Vice President of Finance and Treasurer. From June 2006 to August 2010, Mr. Newton was Director of Budgets and Financial Analysis for Curtiss-Wright Flow Control. Prior to his position at Curtiss-Wright Flow Control, Mr. Newton was Vasomedical's Director of Budgets and Analysis from August 2001 to June 2006. Prior positions included Controller of North American Telecommunications Corp., Accounting Manager for Luitpold Pharmaceuticals, positions of increasing responsibility within the internal audit function of the Northrop Grumman Corporation and approximately three and one half years as an accountant for Deloitte Haskins & Sells, during which time Mr. Newton became a Certified Public Accountant. Mr. Newton holds a B.S. in Accounting from SUNY at Albany, and a B.S. in Mechanical Engineering from Hofstra University.

## ITEM 11 - EXECUTIVE COMPENSATION

The following table sets forth the annual and long-term compensation of our Chief Executive Officer and each of our most highly compensated officers and employees who were serving as executive officers or employees at the end of the last completed fiscal year for services rendered for the years ended December 31, 2016 and 2015.

**Summary Compensation Table**

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$ (3))	Option Awards (\$ (3))	Non-Equity Incentive Plan Compensation (\$)	Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$ (4))	Total (\$)
Jun Ma, PhD	2016	375,000	30,000	216,000				67,831	688,831
Chief Executive Officer	2015	333,333	125,000	40,000				56,364	554,697
Peter C. Castle	2016	350,000	-	144,000				59,352	553,352
Chief Operating Officer (1)	2015	204,167	80,000	270,000				40,863	595,030
Shawl Lobree	2016	300,000	100,000	149,000				12,506	561,506
President of VasoHealthcare (2)									
Michael J. Beecher	2016	215,000	15,000	81,000				16,512	327,512
Chief Financial Officer and Secretary	2015	185,000	30,000	25,000				16,393	256,393
Jonathan P. Newton	2016	175,000	10,000	54,000				17,280	256,280
Vice President of Finance and Treasurer	2015	160,000	20,000	15,000				20,808	215,808

1. Mr. Castle has served as Chief Operating Officer since June 2015.
2. Mr. Lobree has served as President of the VasoHealthcare subsidiary since January 2016.
3. Represents fair value on the date of grant. See Note B to the Consolidated Financial Statements included in our Form 10-K for the year ended December 31, 2016 for a discussion of the relevant assumptions used in calculating grant date fair value.
4. Represents tax gross-ups, vehicle allowances, Company-paid life insurance, and amounts matched in the Company's 401(k) Plan.

## Outstanding Equity Awards at Last Fiscal Year End

The following table provides information concerning outstanding options, unvested stock and equity incentive plan awards for our Named Executive Officers at December 31, 2016:

Name	Option Awards					Stock Awards			
	Number of Securities Underlying Unexercised Options - Exercisable	Number of Securities Underlying Unexercised Options - Unexercisable	Equity Incentive Plan Awards: Number of Underlying Unexercised Unearned Options	Option Exercise Price	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested	Market Value of Shares or Units of Stock That Have Not Vested	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested
Jun Ma, PhD	150,000	-	-	\$ 0.12	7/25/2017	-	-	-	-
						700,000	91,000	-	-
Peter C. Castle						1,150,000	149,500	-	-
Michael J. Beecher						300,000	39,000	-	-
Jonathan P. Newton						200,000	26,000	-	-

The future vesting dates of the above stock awards are:

Name	Number of Shares or Units of Stock That Have Not Vested	Vesting Date
Jun Ma, PhD	350,000	7/5/2017
	350,000	7/5/2018
Peter C. Castle	250,000	6/15/2017
	250,000	6/15/2018
	250,000	6/15/2019
	200,000	7/5/2017
	200,000	7/5/2018
Michael J. Beecher	150,000	7/5/2017
	150,000	7/5/2018
Jonathan P. Newton	100,000	7/5/2017
	100,000	7/5/2018

## Employment Agreements

On March 21, 2011, the Company entered into an Employment Agreement with its President and Chief Executive Officer, Dr. Jun Ma, for a three-year term ending on March 14, 2014. The agreement was amended in 2013 and again in 2015 to provide for a continuing three-year term, unless earlier terminated by the Company, but in no event can extend beyond March 14, 2021. The Employment Agreement currently provides for annual compensation of \$375,000. Dr. Ma shall be eligible to receive a bonus for each fiscal year thereafter during the employment term. The amount and the occasion for payment of such bonus, if any, shall be at the discretion of the Board of Directors. Dr. Ma shall also be eligible for an award under any long-term incentive compensation plan and grants of options and awards of shares of the Company's stock, as determined at the Board of Directors' discretion. The Employment Agreement further provides for reimbursement of certain expenses, and certain severance benefits in the event of termination prior to the expiration date of the Employment Agreement.

On June 1, 2015, the Company entered into an Employment Agreement with Mr. Peter Castle to be its Chief Operating Officer. The agreement provides for a three-year term ending on June 1, 2018 and shall extend for additional one-year periods annually commencing June 1, 2018, unless earlier terminated by the Company, but in no event can extend beyond June 1, 2021. The Employment Agreement currently provides for annual compensation of \$350,000. Mr. Castle shall be eligible to receive a bonus for each fiscal year thereafter during the employment term. The amount and the occasion for payment of such bonus, if any, shall be at the discretion of the Board of Directors. Mr. Castle shall also be eligible for an award under any long-term incentive compensation plan and grants of options and awards of shares of the Company's stock, as determined at the Board of Directors' discretion. The Employment Agreement further provides for reimbursement of certain expenses, and certain severance benefits in the event of termination prior to the expiration date of the Employment Agreement.

#### 401(k) Plan

The Company maintained two defined contribution plans to provide retirement benefits for its employees during 2016 - the Vasomedical, Inc. 401(k) Plan adopted in April 1997, and the NetWolves Network Services, LLC ("NetWolves") 401(k) Plan adopted in January 2015. At December 31, 2016, the NetWolves 401(k) Plan was terminated and all NetWolves employees became eligible to join the Vasomedical 401(k) Plan in January 2017. As allowed under Section 401(k) of the Internal Revenue Code, the plan provides tax-deferred salary deductions for eligible employees. Employees are eligible to participate in the next quarter enrollment period after employment under the Vasomedical Plan. Participants may make voluntary contributions to the plan up to 80% of their compensation under the Vasomedical Plan. In the years ended December 31, 2016 and 2015 the Company made discretionary contributions of approximately \$67,000 and \$95,000, respectively, to match a percentage of employee contributions.

#### Director's Compensation

Non-employee directors receive a fee of \$2,500 for each Board of Directors and Committee meeting attended. Committee chairs receive an annual fee of \$5,000. Non-employee directors also receive an annual fee of \$30,000. These fees are either paid in cash, or common stock valued at the fair market value of the common stock on the date of grant, which is the meeting date.

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)	Option Awards (\$)	Non-equity Incentive Plan Compensation (\$)	Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (1) (\$)	Total (\$)
Simon Srybnik	100,000	24,000	-	-	-	2,667	126,667
David Lieberman	47,500	24,000	-	-	-	17,800	89,300
Jun Ma, PhD	-	-	-	-	-	-	-
Randy Hill	40,000	24,000	-	-	-	63,012	127,012
Peter Castle	-	-	-	-	-	-	-
Joshua Markowitz	52,500	24,000	-	-	-	2,667	79,167
Behnam Movaseghi	60,000	24,000	-	-	-	2,667	86,667
Edgar Rios	55,000	24,000	-	-	-	2,667	81,667

(1) Represents tax gross-up, health benefit premiums, and consulting fees.

## Compensation Committee Interlocks and Insider Participation

During the year ended December 31, 2016, the Compensation Committee consisted of Joshua Markowitz, committee chair, and Behnam Movaseghi. Neither of these persons were officers or employees of the Company during the time they held positions on the committee, or, except as otherwise disclosed, had any relationship requiring disclosure herein.

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

The following table sets forth the beneficial ownership of shares of our common stock as of March 25, 2017 of (i) each person known by us to beneficially own 5% or more of the shares of outstanding common stock, based solely on filings with the SEC, (ii) each of our executive officers and directors, and (iii) all of our executive officers and directors as a group. Except as otherwise indicated, all shares are beneficially owned, and investment and voting power is held by the persons named as owners. To our knowledge, except under community property laws or as otherwise noted, the persons and entities named in the table have sole voting and sole investment power over their shares of our common stock. Unless otherwise indicated, each beneficial owner listed below maintains a mailing address of c/o Vaso Corporation, 137 Commercial Street, Plainview, New York 11803.

<b>Name of Beneficial Owner</b>	<b>Common Stock Beneficially Owned (1)</b>	<b>% of Common Stock (2)</b>
Simon Srybnik (3) (4)	55,888,318	34.15%
Estate of Louis Srybnik (3) (4)	45,165,993	27.62%
Jun Ma, PhD **	4,479,841	2.74%
Peter Castle **	2,425,000	1.48%
Edgar Rios **	1,625,000	*
David Lieberman **	1,599,200	*
Behnam Movaseghi **	1,339,404	*
Michael J. Beecher **	1,090,400	*
Randy Hill **	950,000	*
Jonathan Newton **	675,000	*
Joshua Markowitz **	350,000	*
** Directors and executive officers as a group (9 persons)	14,533,845	8.86%

\*Less than 1% of the Company's common stock

1. No officer or director owns more than one percent of the issued and outstanding common stock of the Company unless otherwise indicated. Includes beneficial ownership of the following numbers of shares that may be acquired within 60 days of March 25, 2017 pursuant to stock options awarded under our stock plans:

Jun Ma, PhD	150,000
Behnam Movaseghi	150,000
Simon Srybnik	150,000
Directors and executive officers as a group	300,000

2. Applicable percentages are based on 163,953,446 shares of common stock outstanding as of March 25, 2017, adjusted as required by rules promulgated by the SEC.
3. Simon Srybnik and the estate of his brother Louis Srybnik are the sole shareholders of Kerns, which is the record holder of 25,714,286 shares. The reporting persons, accordingly, share voting and dispositive powers over the 25,714,286 shares held by Kerns. As a result, they may be deemed to be the co-beneficial owners of an aggregate of 25,714,286 shares. Mr. Simon Srybnik also holds sole dispositive power over 150,000 shares underlying the option he was granted upon being appointed to the Board of Directors, 748,125 shares of common stock awarded him as of December 31, 2016, as well as 11,460,900 additional shares of common stock. The estate of Louis Srybnik holds sole dispositive power over 1,636,700 shares of common stock.
4. Simon Srybnik and the estate of Louis Srybnik also each own 35% of the outstanding shares of Living Data Technology Corporation ("Living Data"). The reporting persons, accordingly, share voting and dispositive powers over the 17,815,007 shares of our common stock owned by Living Data and, as a result, may be deemed to be the co-beneficial owners thereof.

### Equity Compensation Plan Information

We maintain various stock plans under which stock options and stock grants are awarded at the discretion of our Board of Directors or its Compensation Committee. The purchase price of the shares under the plans and the shares subject to each option granted is not less than the fair market value on the date of the grant. The term of each option is generally five years and is determined at the time of the grant by our board of directors or the compensation committee. The participants in these plans are officers, directors, employees, and consultants of the Company and its subsidiaries and affiliates.

Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity Compensation plans approved by security holders	600,000	\$ 0.12	-
Equity Compensation plans not approved by security holders (1)	3,613,125	\$ 0.00	4,031,946
<b>Total</b>	<b>4,213,125</b>		<b>4,031,946</b>

- (1) Includes 30,000 shares and 3,583,125 shares of restricted common stock granted, but unissued, under the 2010 Plan and 2013 Plan, respectively. The exercise price for the stock grants is zero. 5,059 shares, 126,887 shares, and 3,900,000 shares remain available for future grants under the 2010 Plan, 2013 Plan, and 2016 Plan, respectively.

See Note N to the Consolidated Financial Statements for description of the material features of our current stock plans not approved by stockholders.

**ITEM 13 - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

One of the Company's directors, Peter Castle, was the Chief Executive Officer and President of NetWolves Network Services, LLC, which we acquired in May 2015. 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 Asset Purchase Agreement.

The Company obtained an opinion regarding the fairness of the purchase price for the NetWolves entities from a reputable, independent third-party investment banking firm. Of the \$18,000,000 purchase price paid for the acquisition, \$14,200,000 was from the Company's cash on hand and the remaining \$3,800,000 was raised from the sale of a Subordinated Secured Note to MedTechnology Investments, LLC ("MedTech").

On May 29, 2015, the Company entered into a Note Purchase Agreement with 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. An additional \$100,000 was provided by Joshua Markowitz prior to his joining the board of directors. In June 2015, a second Note for \$750,000 was issued to MedTech for working capital purposes, \$250,000 of which 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 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. As set forth in the following table, three directors of the Company provided funds in excess of \$120,000 through Medtech during 2015. No principal payments have made for the year ended December 31, 2016 and interest payments made during the year ended December 31, 2016 to these three directors are as indicated in the table below:

	Principal Outstanding	Interest Paid
Peter C. Castle	\$ 750,000	\$ 68,625
David Lieberman	\$ 700,000	\$ 64,050
Jun Ma, PhD	\$ 300,000	\$ 27,450

David Lieberman, a practicing attorney in the State of New York, serves as Vice Chairman of the Board of Directors. He is currently a senior partner at the law firm of Beckman, Lieberman & Barandes, LLP, which performs certain legal services for the Company. Fees of approximately \$340,000 were billed by the firm for the year ended December 31, 2016 at which date no amounts were outstanding.

## Director Independence

We have adopted the NASDAQ Stock Market's standards for determining the independence of directors. Under these standards, an independent director means a person other than an executive officer or one of our employees or any other individual having a relationship which, in the opinion of the Board of Directors, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. In addition, the following persons shall not be considered independent:

- a director who is, or at any time during the past three years was, employed by us;
- a director who accepted or who has a family member who accepted any compensation from us in excess of \$100,000 during any period of twelve consecutive months within the three years preceding the determination of independence, other than the following:
  - o compensation for service on the Board of Directors or any committee thereof;
  - o compensation paid to a family member who is one of our employees (other than an executive officer); or
  - o under a tax-qualified retirement plan, or non-discretionary compensation;
- a director who is a family member of an individual who is, or at any time during the past three years was, employed by us as an executive officer;
- a director who is, or has a family member who is, a partner in, or a controlling stockholder or an executive officer of, any organization to which we made, or from which we received, payments for property or services in the current or any of the past three fiscal years that exceed 5% of the recipient's consolidated gross revenues for that year, or \$200,000, whichever is more, other than the following:
  - o payments arising solely from investments in our securities; or
  - o payments under non-discretionary charitable contribution matching programs;
- a director who is, or has a family member who is, employed as an executive officer of another entity where at any time during the past three years any of our executive officers served on the compensation committee of such other entity; or
- a director who is, or has a family member who is, a current partner of our outside auditor, or was a partner or employee of our outside auditor who worked on our audit at any time during any of the past three years.

For purposes of the NASDAQ independence standards, the term "family member" means a person's spouse, parents, children and siblings, whether by blood, marriage or adoption, or anyone residing in such person's home.

The Board of Directors has assessed the independence of each non-employee director under the independence standards of the NASDAQ Stock Market set forth above, and has affirmatively determined that two of our non-employee directors (Mr. Markowitz and Mr. Movaseghi) are independent.

We expect each director to attend every meeting of the Board and the committees on which he serves as well as the annual meeting. In the year ended December 31, 2016, all directors except Simon Srybnik attended both the annual meeting and at least 75% of the meetings of the Board and the committees on which they served.

## ITEM 14 - PRINCIPAL ACCOUNTING FEES AND SERVICES

Marcum, LLP is our independent registered public accounting firm and performed the audits of our consolidated financial statements for the years ended December 31, 2016 and 2015. The following table sets forth all fees for such periods:

	2016	2015
Audit fees	\$ 252,925	\$ 238,937
Tax fees	-	-
All other fees	-	211,117
<b>Total</b>	<b>\$ 252,925</b>	<b>\$ 450,054</b>

The Audit Committee has adopted a policy that requires advance approval of all audit, audit-related, tax services, and other services performed by the Company's independent auditor. Accordingly, the Audit Committee must approve the permitted service before the independent auditor is engaged to perform it. In accordance with such policies, the Audit Committee approved 100% of the services relative to the above fees.

Marcum, LLP rendered other non-audit services related to the Company's acquisition of NetWolves LLC during the year ended December 31, 2015.

PART IV

ITEM 15 – EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

Financial Statements and Financial Statement Schedules

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

(a) Exhibits

- (3)(i) (a) Restated Certificate of Incorporation (2)
- (b) Certificate of Designations of Preferences and Rights of Series E Convertible Preferred Stock (9)
- (c) Certificate of Amendment to Certificate of Incorporation (18)
- (3)(ii) (a) By-Laws (1)
- (4) (a) Specimen Certificate for Common Stock (1)
- (b) Specimen Certificate for Series E Convertible Preferred Stock (11)
- (c) Secured Subordinated Note, dated as of May 29, 2015, between Vasomedical, Inc. and MedTechnology Investments LLC (16)
- (10) (a) 1995 Stock Option Plan (3)
- (b) Outside Director Stock Option Plan (3)
- (c) 1997 Stock Option Plan, as amended (4)
- (d) 1999 Stock Option Plan, as amended (5)
- (e) 2004 Stock Option/Stock Issuance Plan (6)
- (f) Securities Purchase Agreement dated June 21, 2007 between Registrant and Kerns Manufacturing Corp. (7)
- (g) Form of Common Stock Purchase Warrant to dated June 21, 2007 (7)
- (h) Registration Rights Agreement dated June 21, 2007 between Registrant, Kerns Manufacturing Corp. and Living Data Technology Corporation. (7)
- (i) Purchase and Sale Agreement dated June 1, 2007 between 180 Linden Avenue Corp and 180 Linden Realty LLC. (8)
- (j) Lease Agreement dated August 15, 2007 between 180 Linden Realty LLC and Registrant (8)
- (k) Form of Stock Purchase Agreement (9)
- (l) Redacted Sales Representative Agreement between GE Healthcare Division of General Electric Company and Vaso Diagnostics, Inc. d/b/a VasoHealthcare, a subsidiary of Vasomedical, Inc. dated as of May 19, 2010 (10).
- (m) 2010 Stock Plan (11).
- (n) Consulting Agreement dated March 1, 2011 between Vasomedical, Inc. and Edgary Consultants, LLC. (12)
- (o) Employment Agreement entered into as of March 21, 2011 between Vasomedical, Inc. and Jun Ma, as amended. (15)
- (p) Stock Purchase Agreement dated as of August 19, 2011 among Vasomedical, Inc., Fast Growth Enterprises Limited (FGE) and the FGE Shareholders (13)
- (q) Amendment to Sales Representative Agreement between GE Healthcare Division of General Electric Company and Vaso Diagnostics, Inc. d/b/a VasoHealthcare, a subsidiary of Vasomedical, Inc. dated as of June 20, 2012 (14)
- (r) 2013 Stock Plan (19)
- (s) Asset Purchase and Sale agreement, dated as of May 29, 2015, by and among Vasomedical, Inc., VasoTechnology, Inc., NetWolves LLC and NetWolves Corporation (16)
- (t) Subordinated Security Agreement dated as of May 29, 2015 by and between Vasomedical, Inc. and MedTechnology Investments LLC (16)
- (u) Employment Agreement dated as of June 1, 2015 between Vasomedical, Inc. and Peter C. Castle (17)
- (v) 2016 Stock Plan (20)

(21) Subsidiaries of the Registrant

Name	State of Incorporation	Percentage Owned by Company
Viromedics, Inc.	Delaware	61%
Vaso Diagnostics, Inc.	New York	100%
VasoMedical, Inc.	Delaware	100%
Vasomedical Global Corp	New York	100%
Vasomedical Solutions, Inc.	New York	100%
VasoHealthcare IT Corp.	Delaware	100%
VasoTechnology, Inc.	Delaware	100%
Fast Growth Enterprises Limited	British Virgin Islands	100%
VSK Medical Limited	Cayman Islands	49.9%

(31) Certification Reports pursuant to Securities Exchange Act Rule 13a - 14

(32) Certification Reports pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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- (1) Incorporated by reference to Registration Statement on Form S-18, No. 33-24095.
  - (2) Incorporated by reference to Registration Statement on Form S-1, No. 33-46377 (effective 7/12/94).
  - (3) Incorporated by reference to Report on Form 8-K dated January 24, 1995.
  - (4) Incorporated by reference to Report on Form 10-K for the fiscal year ended May 31, 1999
  - (5) Incorporated by reference to Report on Form 10-K for the fiscal year ended May 31, 2000.
  - (6) Incorporated by reference to Notice of Annual Meeting of Stockholders dated October 28, 2004.
  - (7) Incorporated by reference to Report on Form 8-K dated June 21, 2007.
  - (8) Incorporated by reference to Report on Form 10-KSB for the fiscal year ended May 31, 2007.
  - (9) Incorporated by reference to Report on Form 8-K dated June 21, 2010.
  - (10) Incorporated by reference to Report on Form 8-K/A dated May 29, 2010 and filed November 9, 2010.
  - (11) Incorporated by reference to Report on Form 10-K for the fiscal year ended May 31, 2010.
  - (12) Incorporated by reference to Report on Form 8-K dated March 4, 2011.
  - (13) Incorporated by reference to Report on Form 10-K for the fiscal year ended May 31, 2011.
  - (14) Incorporated by reference to Report on Form 8-K dated June 20, 2012.
  - (15) Incorporated by reference to Report on Form 10-K for the fiscal year ended December 31, 2013.
  - (16) Incorporated by reference to Report on Form 8-K dated May 29, 2015.
  - (17) Incorporated by reference to Report on Form 8-K dated October 8, 2015.
  - (18) Incorporated by reference to Report on Form 10-Q for the quarter ended September 30, 2016.
  - (19) Incorporated by reference to Report on Form 10-Q for the quarter ended September 30, 2013.
  - (20) Incorporated by reference to Report on Form 10-Q for the quarter ended June 30, 2016.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, we have duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on the 30<sup>th</sup> day of March 2017.

**VASO CORPORATION**

By: /s/ Jun Ma  
Jun Ma  
President, Chief Executive Officer,  
and Director (Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on March 30, 2017, by the following persons in the capacities indicated:

<u>/s/ Jun Ma</u> Jun Ma	President, Chief Executive Officer and Director (Principal Executive Officer)
<u>/s/ Michael Beecher</u> Michael Beecher	Chief Financial Officer (Principal Financial Officer)
<u>/s/ Peter C. Castle</u> Peter C. Castle	Chief Operating Officer and Director
<u>/s/ Joshua Markowitz</u> Joshua Markowitz	Chairman of the Board
<u>/s/ David Lieberman</u> David Lieberman	Vice Chairman of the Board
<u>/s/ Randy Hill</u> Randy Hill	Director
<u>/s/ Edgar Rios</u> Edgar Rios	Director
<u>/s/ Behnam Movaseghi</u> Behnam Movaseghi	Director

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**  
For the years ended December 31, 2016 and 2015

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To the Audit Committee of the  
Board of Directors and Stockholders  
of Vaso Corporation

We have audited the accompanying consolidated balance sheets of Vaso Corporation and Subsidiaries (the "Company") as of December 31, 2016 and 2015, and the related consolidated statements of income and comprehensive income, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Vaso Corporation and Subsidiaries, as of December 31, 2016 and 2015, and the consolidated results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Marcum LLP

Marcum LLP  
Melville, NY  
March 30, 2017

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

	December 31, 2016	December 31, 2015
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 7,087	\$ 2,160
Accounts and other receivables, net of an allowance for doubtful accounts and commission adjustments of \$4,159 at December 31, 2016 and \$3,863 at December 31, 2015	12,741	11,620
Receivables due from related parties	18	209
Inventories, net	2,395	1,963
Deferred commission expense	1,917	2,252
Prepaid expenses and other current assets	925	550
Total current assets	25,083	18,754
<b>PROPERTY AND EQUIPMENT</b> , net of accumulated depreciation of \$3,835 at December 31, 2016 and \$2,976 at December 31, 2015	4,021	2,888
<b>GOODWILL</b>	17,280	17,484
<b>INTANGIBLES</b> , net	5,996	6,977
<b>OTHER ASSETS</b> , net	5,001	4,315
	\$ 57,381	\$ 50,418
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 5,219	\$ 4,037
Accrued commissions	2,139	2,031
Accrued expenses and other liabilities	5,275	4,511
Sales tax payable	718	671
Income taxes payable	30	202
Deferred revenue - current portion	7,628	9,480
Notes payable and capital lease obligations - current portion	4,245	1,485
Due to related party	396	33
Total current liabilities	25,650	22,450
<b>LONG-TERM LIABILITIES</b>		
Notes payable and capital lease obligations	4,935	4,886
Notes payable - related parties	648	963
Deferred revenue	11,776	9,036
Deferred tax liability	112	112
Other long-term liabilities	1,349	1,230
Total long-term liabilities	18,820	16,227
<b>COMMITMENTS AND CONTINGENCIES (NOTE Q)</b>		
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock, \$.01 par value; 1,000,000 shares authorized; nil shares issued and outstanding at December 31, 2016 and 2015	-	-
Common stock, \$.001 par value; 250,000,000 shares authorized; 173,811,533 and 168,749,889 shares issued at December 31, 2016 and December 31, 2015, respectively; 163,503,446 and 158,441,802 shares outstanding at December 31, 2016 and December 31, 2015, respectively	174	168
Additional paid-in capital	62,856	62,263
Accumulated deficit	(47,790)	(48,610)
Accumulated other comprehensive loss	(329)	(80)
Treasury stock, at cost, 10,308,087 shares at December 31, 2016 and 2015	(2,000)	(2,000)
Total stockholders' equity	12,911	11,741
	\$ 57,381	\$ 50,418

See Note B for Variable Interest Entity disclosures

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

## CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(in thousands, except per share data)

	Year ended December 31,	
	2016	2015
<b>Revenues</b>		
Managed IT systems and services	\$ 39,448	\$ 21,149
Professional sales services	28,524	31,584
Equipment sales and services	4,617	4,349
Total revenues	<u>72,589</u>	<u>57,082</u>
<b>Cost of revenues</b>		
Cost of managed IT systems and services	23,145	12,536
Cost of professional sales services	6,173	7,052
Cost of equipment sales and services	1,769	2,127
Total cost of revenues	<u>31,087</u>	<u>21,715</u>
Gross profit	<u>41,502</u>	<u>35,367</u>
<b>Operating expenses</b>		
Selling, general and administrative	39,408	30,913
Research and development	530	515
Total operating expenses	<u>39,938</u>	<u>31,428</u>
Operating income	<u>1,564</u>	<u>3,939</u>
<b>Other income (expense)</b>		
Interest and financing costs	(650)	(415)
Interest and other income (expense), net	187	255
Total other expense, net	<u>(463)</u>	<u>(160)</u>
Income before income taxes	1,101	3,779
Income tax (expense) benefit	(281)	44
Net income	<u>820</u>	<u>3,823</u>
<b>Other comprehensive income</b>		
Foreign currency translation loss	(249)	(174)
Comprehensive income	<u>\$ 571</u>	<u>\$ 3,649</u>
<b>Income per common share</b>		
- basic and diluted	<u>\$ 0.01</u>	<u>\$ 0.02</u>
<b>Weighted average common shares outstanding</b>		
- basic	<u>159,138</u>	<u>156,707</u>
- diluted	<u>159,396</u>	<u>157,189</u>

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

## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(in thousands)

	Common Stock		Treasury Stock		Additional Paid-in- Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Shares	Amount	Shares	Amount				
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	3,949	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
Balance at December 31, 2016	173,812	\$ 174	(10,308)	\$ (2,000)	\$ 62,856	\$ (47,790)	\$ (329)	\$ 12,911

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

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Year ended December 31,	
	2016	2015
<b>Cash flows from operating activities</b>		
Net income	\$ 820	\$ 3,823
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	2,158	1,540
Deferred income taxes	226	(334)
Loss from interest in joint venture	9	-
Provision for doubtful accounts and commission adjustments	140	102
Amortization of debt issue costs	33	19
Share-based compensation	428	342
Provision for allowance for loss on loan receivable	412	-
Changes in operating assets and liabilities:		
Accounts and other receivables	(1,282)	4,977
Receivables due from related parties	578	(178)
Inventories, net	(602)	(201)
Deferred commission expense	335	(51)
Prepaid expenses and other current assets	(418)	20
Other assets, net	(983)	1,793
Accounts payable	1,270	347
Accrued commissions	108	(263)
Accrued expenses and other liabilities	1,055	(1,401)
Sales tax payable	50	7
Income taxes payable	(171)	158
Deferred revenue	887	(4,016)
Due to related party	(15)	(24)
Other long-term liabilities	177	(140)
Net cash provided by operating activities	5,215	6,520
<b>Cash flows from investing activities</b>		
Purchases of equipment and software	(1,866)	(893)
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	(2,250)	(18,258)
<b>Cash flows from financing activities</b>		
Net borrowings on revolving line of credit	2,624	47
Debt issuance costs	(130)	-
Payroll taxes paid by withholding shares	(7)	-
Repayment of notes payable and capital lease obligations	(304)	(146)
Proceeds from notes payable	-	4,800
Proceeds from note payable - related party	300	-
Payments on notes payable - related parties	(564)	-
Net cash provided by financing activities	1,919	4,701
Effect of exchange rate differences on cash and cash equivalents	43	69
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	4,927	(6,968)
Cash and cash equivalents - beginning of year	2,160	9,128
Cash and cash equivalents - end of year	\$ 7,087	\$ 2,160
<b>SUPPLEMENTAL DISCLOSURE OF CASH INFORMATION</b>		
Interest paid	\$ 795	\$ 196
Income taxes paid	\$ 549	\$ 130
<b>SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES</b>		
Inventories transferred to property and equipment, net	\$ 124	\$ 102
Equipment acquired through capital lease	\$ 387	\$ -
Liability settled through issuance of common stock	\$ 178	\$ -
Debt issuance cost in accrued expenses	\$ -	\$ 130
Fair value of assets acquired	\$ -	\$ 23,350
Fair value of liabilities assumed	\$ -	\$ 6,083

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

## NOTE A – DESCRIPTION OF BUSINESS

Vaso Corporation (formerly Vasomedical, Inc.) was incorporated in Delaware in July 1987. For most of its history, the Company was a single-product company designing, manufacturing, marketing and servicing its proprietary Enhanced External Counterpulsation, or EECP<sup>®</sup>, therapy systems, mainly for the treatment of angina. In 2010 it began to diversify its business operations. Unless the context requires otherwise, all references to "we", "our", "us", "Company", "registrant", "Vaso" or "management" refer to Vaso Corporation and its subsidiaries.

*Overview*

Vaso Corporation principally operates in three distinct business segments in the healthcare equipment 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 General Electric Healthcare ("GEHC") into the health provider middle market; and
- Equipment segment, operating through wholly-owned subsidiaries Vasomedical Global Corp. and Vasomedical Solutions, 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, NetWolves, and a healthcare IT application VAR (value added reseller) division, VasoHealthcare IT.

In June 2014, the Company began its IT segment business by executing the Value Added Reseller Agreement ("VAR Agreement") with GEHC to become a national value added reseller of GE Healthcare IT's Radiology PACS (Picture Archiving and Communication System) software solutions and related services, including implementation, management and support. This multiyear VAR Agreement focuses primarily on existing customer segments currently served by VasoHealthcare on behalf of GEHC. A new wholly owned subsidiary, VasoHealthcare IT Corp. ("VHC IT"), was formed to conduct the healthcare IT business.

In May 2015, the Company further expanded its IT segment business by acquiring NetWolves. NetWolves designs and delivers multi-network and multi-technology solutions as a managed network provider, and provides a complete single-source solution that includes design, network redundancy, application device management, real-time network monitoring, reporting and support systems as a comprehensive solution.

*VasoHealthcare*

In May 2010, the Company launched its Professional Sales Service business through a wholly-owned subsidiary Vaso Diagnostics, Inc. d/b/a VasoHealthcare, which was appointed the exclusive representative for the sale of select GEHC diagnostic imaging equipment to specific market segments in the 48 contiguous states of the United States and the District of Columbia. The original agreement ("GEHC Agreement") was for three years ending June 30, 2013; in 2012 it was extended to June 30, 2015 and again in 2014 to December 31, 2018, subject to earlier termination under certain circumstances and termination without cause on or after July 1, 2017.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

*Vasomedical Global and Vasomedical Solutions*

Vasomedical Global was formed in 2011 to combine and coordinate the various design, development manufacturing, and sales operations of medical devices acquired by the Company.

The Company's Equipment business also has been significantly expanded from the original EECF<sup>®</sup>-only operations. In September 2011, the Company acquired Fast Growth Enterprises Ltd. ("FGE"), a British Virgin Islands company, which owns or controls two Chinese operating companies - Life Enhancement Technology Ltd. ("LET") based in Foshan, China, and Biox Instruments Co. Ltd. ("Biox") based in Wuxi, China, respectively - to expand its technical and manufacturing capabilities and to enhance its distribution network, technology, and product portfolio. Biox is a variable interest entity controlled by FGE through certain contracts and an option to acquire all the shares of Biox. In August 2014, the Company acquired all of the outstanding shares of Genwell Instruments Co. Ltd. ("Genwell"), located in Wuxi, China, through its wholly owned subsidiary Wuxi Gentone Instruments Co. Ltd. ("Gentone"). Genwell was formed in China in 2010 with the assistance of a government grant to develop the MobiCare<sup>™</sup> wireless multi-parameter patient monitoring system and holds intellectual property rights for this system. As a result, the Company has now expanded its equipment products portfolio to include Biox<sup>™</sup> series ambulatory patient monitoring systems, ARCS<sup>™</sup> series software for ECG and blood pressure analysis, and the MobiCare<sup>™</sup> patient monitoring device.

In April 2014, the Company entered into an agreement with Chongqing PSK-Health Sci-Tech Development Co., Ltd. ("PSK") of Chongqing, China, the leading manufacturer of external counter pulsation, or ECP, therapy systems in China, to form a joint venture company, VSK Medical Limited ("VSK"), a Cayman Islands company, for the global marketing, sale and advancement of ECP therapy technology. The Company owns 49.9% of VSK, which commenced operations in January 2015.

## NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

*Principles of Consolidation*

The consolidated financial statements include the accounts of Vaso Corporation, its wholly-owned subsidiaries, and the variable interest entity where the Company is the primary beneficiary. Significant intercompany accounts and transactions have been eliminated. The Company's minority interest in the VSK joint venture is accounted for using the equity method of accounting and is included in other assets in the amount of \$522,000 and \$100,000 at December 31, 2016 and 2015, respectively.

**Variable Interest Entity**Basic Information

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). Laws and regulations of the Peoples Republic of China ("PRC") prohibit or restrict companies with foreign ownership from certain activities and benefits including eligibility for certain government grants and certain rebates related to commercial activities. To provide the Company the expected residual returns of the VIE, the Company, through its wholly-owned subsidiary Gentone, entered into a series of contractual arrangements with Biox and its registered shareholders to enable the Company, to:

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

- exercise effective control over the VIE;
- receive substantially all of the economic benefits and residual returns, and absorb substantially all the risks of the VIE as if they were their sole shareholders; and
- have an exclusive option to purchase all of the equity interests in the VIE.

The Company's management evaluated the relationships between the Company and Biox, and the economic benefits flow of the applicable contractual arrangements. The Company concluded that it is the primary beneficiary of Biox. As a result, the results of operations, assets and liabilities of Biox have been included in the Company's consolidated financial statements.

The significant agreements through which the Company exercises effective control over Biox are:

- the Exclusive Technical Consulting Services Agreement between Biox and Gentone;
- the Option Agreement on Purchase of the Equity Interest executed by and among the shareholders of Biox and Gentone;
- the Equity Pledge Agreement executed by and among the shareholders of Biox and Gentone; and
- the Powers of Attorney issued by the shareholders of Biox.

Financial Information of VIE

Liabilities recognized as a result of consolidating this VIE do not represent additional claims on the Company's general assets. VIE assets can be used to settle obligations of the primary beneficiary. The financial information of Biox, which was included in the accompanying consolidated financial statements, is presented as follows:

	<i>(in thousands)</i>	
	As of December 31, 2016	As of December 31, 2015
Cash and cash equivalents	\$ 13	\$ 104
Total assets	\$ 1,451	\$ 1,168
Total liabilities	\$ 1,133	\$ 1,007

	<i>(in thousands)</i>	
	Year ended December 31,	
	2016	2015
Total net revenue	\$ 1,850	\$ 1,715
Net income (loss)	\$ 185	\$ (35)

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Significant estimates and assumptions relate to estimates of collectibility of accounts receivable, the realizability of deferred tax assets, stock-based compensation, values and lives assigned to acquired intangible assets, the adequacy of inventory and warranty reserves, and allocation of fair value among the elements of the multi-deliverable arrangements. Additionally, significant estimates and assumptions impact the Company's accounting relative to its business combination. Actual results could differ from those estimates.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

*Revenue and Expense Recognition for the IT Segment*

The Company currently derives its revenues in the IT segment from two sources: (1) telecommunication and managed network services, which are comprised primarily of fixed monthly fees and variable usage charges; and (2) the resale to diagnostic imaging service providers of GEHC's PACS software solutions, which is comprised of software from GEHC and other vendors, hardware, related solution implementation services, and post-implementation customer support ("PCS"). We offer our customers the option to purchase our software solutions or to subscribe our solutions under a monthly Software as a Service ("SaaS") fee basis. Customers that purchase our software solutions may elect to purchase PCS, comprised of software license updates and product support contracts, which provide our customers with rights to unspecified product upgrades and maintenance releases issued during the support period, as well as technical support assistance and remote network monitoring.

Revenue Recognition for Multiple-Element Arrangements - Arrangements with Software and Non-software Elements

We enter into multiple-element arrangements that may include a combination of our various software related and non-software related products and services offerings including new software licenses, hardware, implementation services, PCS and monthly subscription-based SaaS solutions. In such arrangements, we first allocate the total arrangement consideration based on the relative selling prices of the software group of elements as a whole and to the nonsoftware elements. We then further allocate consideration within the software group to the respective elements within that group following the guidance in ASC 985-605, "Software-Revenue Recognition" and allocate consideration within the nonsoftware group to the respective elements within that group following the guidance in ASC 605-25, "Revenue Recognition, Multiple-Element Arrangements". After the arrangement consideration has been allocated to the elements, we account for each respective element in the arrangement as described below.

Revenue Recognition for Multiple-Element Arrangements - Software Products and Software Related Services (Software Arrangements)

We enter into arrangements with customers that purchase both software related products and software related services from us at the same time, or within close proximity of one another (referred to as software related multiple-element arrangements). Such software related multiple-element arrangements include the sale of our software products, implementation services, and PCS, whereby software license delivery is followed by the subsequent or contemporaneous delivery of the other elements. For those software related multiple-element arrangements, we have applied the residual method to determine the amount of new software license revenues to be recognized pursuant to ASC 985-605. Under the residual method, if fair value exists for undelivered elements in a multiple-element arrangement, such fair value of the undelivered elements is deferred with the remaining portion of the arrangement consideration generally recognized upon delivery of the software license. We allocate the fair value of each element of a software related multiple-element arrangement based upon its fair value as determined by our vendor specific objective evidence ("VSOE" as described further below), with any remaining amount allocated to the software license.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

The basis for our software license revenue recognition is substantially governed by the accounting guidance contained in ASC 985-605. We exercise judgment and use estimates in connection with the determination of the amount of software and software related services revenues to be recognized in each accounting period. We recognize new software licenses revenues when: (1) we enter into a legally binding arrangement with a customer for the license of software; (2) we deliver the products; (3) the sale price is fixed or determinable and free of contingencies or significant uncertainties; (4) collection is probable; and (5) upon verification of installation and expiration of an acceptance period. Revenues that are not recognized at the time of sale because the foregoing conditions are not met are recognized when those conditions are subsequently met. Installation of the Company's software products may involve a certain amount of customer-specific implementation to enable the software product to function within the customer's operating environment (i.e., with the customer's information technology network and other hardware, with the customer's data interfaces and with the customer's administrative processes). With these software products, customers do not have full use of the software (i.e., functionality) until the software is installed as described above and functioning within the customer's operating environment. Therefore, the Company recognizes 100% of such software revenues upon verification of installation and expiration of an acceptance period, provided that all other criteria for revenue recognition have been met.

The vast majority of our software license arrangements include PCS, which is ordered at the customer's option and is recognized ratably over the term of the arrangement, typically three to five years. PCS provides customers with rights to unspecified software product upgrades, maintenance releases and patches released during the term of the support period, as well as remote network monitoring and technical support. PCS is generally priced as a percentage of the net new software licenses fees.

Revenue Recognition for Multiple-Element Arrangements – SaaS, Hardware and Implementation Services (Non-software Arrangements)

We enter into arrangements with customers that purchase multiple non-software related products and services from us within close proximity of one another (referred to as nonsoftware multiple-element arrangements). Each element within a non-software multiple-element arrangement is accounted for as a separate unit of accounting provided the services have value to the customer on a standalone basis. We consider a deliverable to have standalone value if the service is sold separately by us or another vendor or could be resold by the customer.

For our non-software multiple-element arrangements, we allocate revenue to each element based on a selling price hierarchy at the arrangement's inception. The selling price for each element is based upon the following selling price hierarchy: VSOE if available, third party evidence ("TPE") if VSOE is not available, or estimated selling price ("ESP") if neither VSOE nor TPE are available. When possible, we establish VSOE of selling price for deliverables in software and non-software multiple-element arrangements using the price charged for a deliverable when sold separately. TPE is established by evaluating similar and interchangeable competitor products or services in standalone arrangements with similarly situated customers. If we are unable to determine the selling price because VSOE or TPE does not exist, we determine ESP for the purposes of allocating the arrangement by reviewing several other external and internal factors including, but not limited to: historical transactions; pricing practices including discounting; and competition. The determination of ESP is made through consultation with and approval by our management, taking into consideration our pricing model and go-to-market strategy. As these strategies evolve, we may modify our pricing practices in the future, which could result in changes to our determination of VSOE, TPE and ESP. As a result, our future revenue recognition for multiple-element arrangements could differ materially from our results in the current period.

Our revenue recognition policy for non-software deliverables including SaaS and implementation services is based upon the accounting guidance contained in ASC 605-25 and we exercise judgment and use estimates in connection with the determination of the amount of SaaS and implementation service revenues to be recognized in each accounting period.

Revenues from the sales of our non-software elements are recognized when: (1) persuasive evidence of an arrangement exists; (2) we perform the services or deliver the product; (3) the sale price is fixed or determinable; (4) collection is reasonably assured; and (5) upon verification of installation and expiration of an acceptance period. Revenues that are not recognized at the time of sale because the foregoing conditions are not met are recognized when those conditions are subsequently met. Our arrangements are documented in a written contract signed by the customer, are non-cancelable, and do not contain refund-type provisions.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

Our SaaS offerings provide deployment of our software and hardware and related IT monitoring infrastructure including PCS for a stated term that is hosted at our data center facilities or physically on-premises at customer facilities for a monthly subscription fee. Revenues for these SaaS offerings are generally recognized ratably over the contract term commencing with the date the service is made available to customers and all other revenue recognition criteria have been satisfied. The Company recognizes revenue for hardware and implementation services rendered upon verification of installation and expiration of an acceptance period.

*Revenue and Expense Recognition for the Professional Sales Service Segment*

The Company recognizes commission revenue in its professional sales service segment (see Note C) when persuasive evidence of an arrangement exists, service has been rendered, the price is fixed or determinable and collectability is reasonably assured. These conditions are deemed to be met when the underlying equipment has been delivered and accepted at the customer site in accordance with the specific terms of the sales agreement. Consequently, amounts billable under the agreement with GE Healthcare in advance of the customer acceptance of the equipment are recorded as accounts receivable and deferred revenue in the Consolidated Balance Sheets. Similarly, commissions payable to our sales force related to such billings are recorded as deferred commission expense when the associated deferred revenue is recorded. Commission expense is recognized when the corresponding commission revenue is recognized.

*Revenue and Expense Recognition for the Equipment Segment*

In the United States, we recognize revenue from the sale of our medical equipment in the period in which we deliver the product to the customer. Revenue from the sale of our medical equipment to international markets is recognized upon shipment of the product to a common carrier, as are supplies, accessories and spare parts delivered to both domestic and international customers.

In most cases, revenue from domestic EEC<sup>®</sup> system sales is generated from multiple-element arrangements that require judgment in the areas of customer acceptance, collectability, the separability of units of accounting, and the fair value of individual elements. We follow the ASC 605-25 which outlines a framework for recognizing revenue from multi-deliverable arrangements. We determined that the domestic sale of our EEC<sup>®</sup> systems includes a combination of three elements that qualify as separate units of accounting: (1) EEC<sup>®</sup> equipment sale; (2) provision of in-service and training support consisting of equipment set-up and training provided at the customer's facilities; and (3) a service arrangement (usually one year), consisting of: service by factory-trained service representatives, material and labor costs, emergency and remedial service visits, software upgrades, technical phone support and preferred response times.

Each of these elements represent individual units of accounting as the delivered item has value to a customer on a stand-alone basis, objective and reliable evidence of fair value exists for undelivered items, and arrangements normally do not contain a general right of return relative to the delivered item. We determine fair value based on the price of the deliverable when it is sold separately, or based on third-party evidence, or based on estimated selling price. Assuming all other criteria for revenue recognition have been met, we recognize equipment sales and services revenue for: (1) EEC<sup>®</sup> equipment sales, when title transfers upon delivery; (2) in-service and training, following documented completion of the training; and (3) service arrangement, ratably over the service period, which is generally one year.

The Company also recognizes revenue generated from servicing EEC<sup>®</sup> systems that are no longer covered by the service arrangement, or by providing sites with additional training, in the period that these services are provided. Revenue related to future commitments under separately priced extended service agreements on our EEC<sup>®</sup> system are deferred and recognized ratably over the service period, generally ranging from one year to four years. Costs associated with the provision of in-service and training, service arrangements, and separately priced extended service agreements, including salaries, benefits, travel and spare parts, and equipment, are recognized in cost of equipment sales and services as incurred. Amounts billed in excess of revenue recognized are included as deferred revenue in the consolidated balance sheets.

*Shipping and Handling Costs*

All shipping and handling expenses are charged to cost of sales. Amounts billed to customers related to shipping and handling costs are included as a component of sales.

*Research and Development*

Research and development costs attributable to development are expensed as incurred.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

*Share-Based Compensation*

The Company complies with ASC Topic 718, "Compensation – Stock Compensation" ("ASC 718"), and ASC Topic 505, "Equity" ("ASC 505"), which requires all companies to recognize the cost of services received in exchange for equity instruments, to be recognized in the financial statements based on their fair values. For employees and non-employee directors, the fair value is measured on the grant date and for non-employees, the fair value is measured on the measurement date and re-measured at each reporting period until performance is complete. The Company applies an estimated forfeiture rate to the grant date fair value to determine the annual compensation cost of share-based payment arrangements with employees. The forfeiture rate is estimated based primarily on job title and prior forfeiture experience. The Company did not grant any awards to non-employees during the years ended December 31, 2016 and 2015.

During the year ended December 31, 2016, the Company granted 2,862,500 restricted shares of common stock valued at \$415,725 to non-officer employees, vesting primarily over the four year period ending December 2020; 2,400,000 restricted shares of common stock valued at \$384,000 to officers, of which 800,000 shares vested immediately with the remainder vesting over the two year period ending July 2018; and 900,000 restricted shares of common stock valued at \$144,000 to directors, of which 300,000 shares vested immediately with the remainder vesting over the two year period ending July 2018. The total fair value of shares vested during the year ended December 31, 2016 was \$299,000 for employees. The weighted average grant date fair value of shares granted during the year ended December 31, 2016 was \$0.15 per share.

During the year ended December 31, 2015, the Company granted 1,592,500 restricted shares of common stock valued at \$270,700 to non-officer employees, vesting over the four year period ending June 2019; 2,000,000 restricted shares of common stock valued at \$367,000 to officers, of which 1,000,000 shares vested immediately with the remainder vesting over the four year period ending June 2019; and 150,000 restricted shares of common stock valued at \$30,000 to a director, which vested immediately. The total fair value of shares vested during the year ended December 31, 2015 was \$277,000 for employees. The weighted average grant date fair value of shares granted during the year ended December 31, 2015 was \$0.18 per share.

The Company did not grant any stock options during the years ended December 31, 2016 or 2015, nor were any options exercised during such periods.

Share-based compensation expense recognized for the years ended December 31, 2016 and 2015 was \$428,000 and \$342,000, respectively, and is recorded in selling, general, and administrative expense in the consolidated statements of income and comprehensive income. Unrecognized expense related to existing share-based compensation and arrangements is approximately \$870,000 at December 31, 2016 and will be recognized over a weighted-average period of approximately 16 months.

*Cash and Cash Equivalents*

Cash and cash equivalents represent cash and short-term, highly liquid investments either in certificates of deposit, treasury bills, money market funds, or investment grade commercial paper issued by major corporations and financial institutions that generally have maturities of three months or less from the date of acquisition.

*Short-Term Investments*

The Company's short-term investments consist of certificates of deposit with original maturities greater than three months and up to one year. Short-term investments of \$38,000 were recorded at December 31, 2015 and liquidated in 2016. The December 31, 2015 balance was reclassified to prepaid expenses and other current assets in the presented consolidated balance sheet.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

*Accounts Receivable, net*

The Company's accounts receivable are due from customers to whom we sell our products and services, distributors engaged in the distribution of our products and from GEHC. Credit is extended based on evaluation of a customer's financial condition and, generally, collateral is not required. Accounts receivable are generally due 30 to 90 days from shipment and services provided and are stated at amounts due from customers net of allowances for doubtful accounts, returns, term discounts and other allowances. Accounts that are outstanding longer than the contractual payment terms are considered past due. Estimates are used in determining the allowance for doubtful accounts based on the Company's historical collections experience, current trends, credit policy and a percentage of its accounts receivable by aging category. In determining these percentages, the Company reviews historical write-offs of their receivables. The Company also looks at the credit quality of their customer base as well as changes in their credit policies. The Company continuously monitors collections and payments from our customers, and writes off receivables when all efforts at collection have been exhausted. While credit losses have historically been within expectations and the provisions established, the Company cannot guarantee that it will continue to experience the same credit loss rates that they have in the past.

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

	<i>(in thousands)</i>	
	For the year ended December 31, 2016	For the year ended December 31, 2015
Beginning Balance	\$ 3,863	\$ 4,571
Provision for losses on accounts receivable	140	140
Direct write-offs, net of recoveries	(85)	(48)
Commission adjustments	241	(800)
Ending Balance	<u>\$ 4,159</u>	<u>\$ 3,863</u>

*Concentrations of Credit Risk*

We market our equipment and IT software solutions principally to hospitals, diagnostic imaging centers and physician private practices. We perform credit evaluations of our customers' financial condition and, as a result, believe that our receivable credit risk exposure is limited. For the years ended December 31, 2016 and 2015, no customer in our equipment or IT segment accounted for 10% or more of revenues or accounts receivable. In our professional sales service segment, 100% of our revenues and accounts receivable are with GEHC; however, we believe this risk is acceptable based on GEHC's financial position.

The Company maintains cash balances in certain U.S. financial institutions, which, at times, may exceed the Federal Depository Insurance Corporation ("FDIC") coverage of \$250,000. The Company has not experienced any losses on these accounts and believes it is not subject to any significant credit risk on these accounts. In addition, the FDIC does not insure the Company's foreign bank balances, which aggregated approximately \$284,000 and \$317,000 at December 31, 2016 and 2015, respectively.

*Inventories, net*

The Company values inventory at the lower of cost or market, with cost being determined on a first-in, first-out basis. The Company often places EECP® systems at various field locations for demonstration, training, evaluation, and other similar purposes at no charge. The cost of these EECP® systems is transferred to property and equipment and is amortized over two to five years. The Company records the cost of refurbished components of EECP® systems and critical components at cost plus the cost of refurbishment. The Company regularly reviews inventory quantities on hand, particularly raw materials and components, and records a provision for excess and slow moving inventory based primarily on existing and anticipated design and engineering changes to its products as well as forecasts of future product demand.

We comply with the provisions of ASC Topic 330 "Inventory". The statement clarifies that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) should be recognized as current-period charges and requires the allocation of fixed production overhead to inventory based on the normal capacity of the production facilities.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

*Property and Equipment*

Property and equipment are stated at cost less accumulated depreciation and amortization. Major improvements are capitalized and minor replacements, maintenance and repairs are charged to expense as incurred. Upon retirement or disposal of assets, the cost and related accumulated depreciation are removed from the consolidated balance sheets. Depreciation is expensed over the estimated useful lives of the assets, which range from two to eight years, on a straight-line basis. Accelerated methods of depreciation are used for tax purposes. We amortize leasehold improvements over the useful life of the related leasehold improvement or the life of the related lease, whichever is less.

*Goodwill and Intangible Assets*

Goodwill represents the excess of cost over the fair value of net assets of businesses acquired. The Company accounts for goodwill under the guidance of the ASC Topic 350, "Intangibles: Goodwill and Other". Goodwill acquired in a purchase business combination is not amortized, but instead tested for impairment, at least annually, in accordance with this guidance. The recoverability of goodwill is subject to an annual impairment test or whenever an event occurs or circumstances change that would more likely than not result in an impairment. The Company tests goodwill for impairment at the reporting unit level on an annual basis as of December 31 and between annual tests when an event occurs or circumstances change that could indicate that the asset might be impaired. In any year, the Company may elect to perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is in excess of its carrying value. If the Company cannot determine qualitatively that the fair value is in excess of the carrying value, or the Company decides to bypass the qualitative assessment, the Company proceeds to the two-step quantitative process. The first step compares the fair value of each reporting unit to its carrying amount. If the fair value of each reporting unit exceeds its carrying amount, goodwill is not considered to be impaired and the second step will not be required. If the carrying amount of a reporting unit exceeds its fair value, the second step compares the implied fair value of goodwill to the carrying value of a reporting unit's goodwill. The implied fair value of goodwill is determined by taking the fair value of the reporting unit and allocating it to all of its assets and liabilities (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination. An impairment loss is recognized for any excess in the carrying value of goodwill over the implied fair value of goodwill. No impairment loss was recorded as of December 31, 2016 and 2015.

Intangible assets consist of the value of customer contracts and relationships, patent and technology costs, and software. The cost of significant customer-related intangibles is amortized in proportion to estimated total related revenue; cost of other intangible assets is generally amortized on a straight-line basis over the asset's estimated economic life, which range from five to ten years. The Company capitalizes internal use software development costs incurred during the application development stage. Costs related to preliminary project activities, training, data conversion, and post implementation activities are expensed as incurred. In 2015 the Company capitalized \$5,031,000 of cost related to customer contracts and relationships, and \$14,375,000 in goodwill, resulting from the NetWolves acquisition. The Company capitalized \$217,000 and \$220,000 in software development costs for the years ended December 31, 2016 and 2015, respectively.

*Impairment of Long-lived Assets*

The Company reviews the recoverability of all long-lived assets, including the related useful lives, whenever events or changes in circumstances indicate that the carrying amount of a long-lived asset might not be recoverable. If required, the Company compares the estimated fair value determined by either the undiscounted future net cash flows or appraised value to the related asset's carrying value to determine whether there has been an impairment. If an asset is considered impaired, the asset is written down to fair value, which is based either on discounted cash flows or appraised values in the period the impairment becomes known. No assets were determined to be impaired as of December 31, 2016 and 2015.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

*Deferred Revenue*

Amounts billable under the agreement with GEHC in advance of customer acceptance of the equipment are recorded initially as deferred revenue, and commission revenue is subsequently recognized as customer acceptance of such equipment is reported to us by GEHC.

We record revenue on extended service contracts ratably over the term of the related service contracts. Under the provisions of ASC 605, we began to defer revenue related to EECF<sup>®</sup> system sales for the fair value of installation and in-service training to the period when the services are rendered and for service obligations ratably over the service period, which is generally one year. (See Note I)

*Income Taxes*

Deferred income taxes are recognized for temporary differences between financial statement and income tax bases of assets and liabilities and loss carry-forwards for which income tax benefits are expected to be realized in future years. A valuation allowance is established, when necessary, to reduce deferred tax assets to the amount expected to be realized. In estimating future tax consequences, we generally consider all expected future events other than an enactment of changes in the tax laws or rates. Deferred tax assets are continually evaluated for the expected realization. To the extent our judgment regarding the realization of the deferred tax assets changes, an adjustment to the allowance is recorded, with an offsetting increase or decrease, as appropriate, in income tax expense. Such adjustments are recorded in the period in which our estimate as to the realization of the assets changed that it is "more likely than not" that all of the deferred tax assets will be realized. The "realization" standard is subjective and is based upon our estimate of a greater than 50% probability that the deferred tax asset can be realized.

In December 2015, the Company early adopted, on a prospective basis, ASU 2015-17 (Topic 740), "Balance Sheet Classification of Deferred Taxes", which requires the presentation of deferred tax liabilities and assets as noncurrent within a classified statement of financial position.

The Company also complies with the provisions of ASC Topic 740, "Income Taxes", which prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by the relevant taxing authority based on the technical merits. The tax benefit recognized is measured as the largest amount of benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement with the relevant taxing authority. Derecognition of a tax benefit previously recognized results in the Company recording a tax liability that reduces ending retained earnings. Based on its analysis, the Company has determined that it has not incurred any liability for unrecognized tax benefits as of December 31, 2016 and 2015. The Company recognizes accrued interest and penalties related to unrecognized tax benefits as income tax expense. No amounts were accrued for the payment of interest and penalties at December 31, 2016 and 2015. Generally, the Company is no longer subject to income tax examinations by major domestic taxing authorities for years before 2013. According to the China tax regulatory framework, there is no statute of limitations on examination of tax filings by tax authorities. However, the general practice is going back five years. Management is currently unaware of any issues under review that could result in significant payments, accruals or material deviations from its position.

*Foreign Currency Translation Loss and Comprehensive Income*

In countries in which the Company operates, and the functional currency is other than the U.S. dollar, assets and liabilities are translated using published exchange rates in effect at the consolidated balance sheet date. Equity accounts are translated at historical rates except for the changes in retained earnings during the year as the result of the income statement translation process. Revenues and expenses and cash flows are translated using a weighted average exchange rate for the period. Resulting translation adjustments are recorded as a component of accumulated other comprehensive (loss) income on the accompanying consolidated balance sheet. For the years ended December 31, 2016 and 2015, other comprehensive (loss) income includes losses of \$249,000 and \$174,000, respectively, which were entirely from foreign currency translation.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

*Net Income Per Common Share*

Basic income per common share is based on the weighted average number of common shares outstanding without consideration of potential common stock. Diluted earnings per common share is based on the weighted average number of common and potential dilutive common shares outstanding.

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:

	<i>(in thousands)</i>	
	For the year ended	
	December 31, 2016	December 31, 2015
Basic weighted average shares outstanding	159,138	156,707
Dilutive effect of options and unvested restricted shares	258	482
Diluted weighted average shares outstanding	<u>159,396</u>	<u>157,189</u>

The following table represents common stock equivalents that were excluded from the computation of diluted earnings per share as of December 31, 2016 and 2015, because the effect of their inclusion would be anti-dilutive.

	<i>(in thousands)</i>	
	As of	
	December 31, 2016	December 31, 2015
Stock options	-	300
Restricted common stock grants	2,763	-
	<u>2,763</u>	<u>300</u>

*Reclassifications*

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

*Recently Issued Accounting Pronouncements*

The Company continually assesses any new accounting pronouncements to determine their applicability to the Company. Where it is determined that a new accounting pronouncement affects the Company's financial reporting, the Company undertakes a study to determine the consequence of the change to its financial statements and assures that there are proper controls in place to ascertain that the Company's consolidated financial statements properly reflect the change. New pronouncements assessed by the Company recently are discussed below:

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

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 is effective for fiscal periods beginning after December 15, 2016 and allows for either full retrospective or modified retrospective adoption. In August 2015, FASB issued ASU 2015-14, "Revenue from Contracts with Customers – Deferral of the Effective Date" (Topic 606). The amendments in this ASU defer the effective date of ASU 2014-09, "Revenue from Contracts with Customers," for all entities by one year. 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. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, 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 is currently evaluating the impact of the adoption of these standards on its Consolidated Financial Statements.

In July 2015, the FASB issued ASU 2015-11, "Simplifying the Measurement of Inventory". Inventory under ASU 2015-11 is to be measured at the "lower of cost and net realizable value" which would eliminate the other two options that currently exist for "market": (1) replacement cost and (2) net realizable value less an approximately normal profit margin. ASU 2015-11 defines net realizable value as the "estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation." ASU No. 2015-11 is effective for fiscal periods beginning after December 15, 2016 and allows for early adoption. The Company does not expect the adoption of this standard to have a material effect on its Consolidated Financial Statements.

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.

During the first quarter of 2016, we early adopted 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" ("ASU 2016-09"). As a result of adopting ASU 2016-09, the Company utilized a modified retrospective transition method for the accounting related to the timing of recognizing excess tax benefits and minimum statutory withholding requirements; a retrospective transaction method for the presentation of employee taxes paid on the statement of cash flow when the Company withholds shares to meet statutory withholding requirements; and a prospective transition method for recognizing excess tax benefits and deficiencies in the statement of operations and the presentation of excess tax benefits on the statement of cash flows. The adoption of ASU 2016-09 did not have a material impact on our reported financial position or results of operations and cash flows.

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 standard would only impact the Company in the event of a goodwill impairment. Accordingly, it does not expect the adoption to have a material effect on its Consolidated Financial Statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

## NOTE C – SEGMENT REPORTING

The Company views its business in three segments – the IT segment, the professional sales service segment, and the equipment segment. The IT segment includes the operations of NetWolves and VasoHealthcare IT Corp. Operations in the IT segment began in the third quarter of 2014. The professional sales service segment operates through the Vaso Diagnostics subsidiary and is currently engaged solely in the fulfillment of the Company's responsibilities under our agreement with GEHC. The equipment segment is engaged in designing, manufacturing, marketing and supporting EECP® enhanced external counterpulsation systems both domestically and internationally, as well as the development, production, marketing and supporting of other 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 (earnings before interest, taxes, depreciation and amortization – defined as net income, plus interest expense, tax expense, depreciation and amortization, and non-cash expenses for share-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:

	<i>(in thousands)</i>	
	Year ended December 31,	
	2016	2015
Revenues from external customers		
IT	\$ 39,448	\$ 21,149
Professional sales service	28,524	31,584
Equipment	4,617	4,349
Total revenues	<u>\$ 72,589</u>	<u>\$ 57,082</u>
Gross Profit		
IT	\$ 16,303	\$ 8,613
Professional sales service	22,351	24,532
Equipment	2,848	2,222
Total gross profit	<u>\$ 41,502</u>	<u>\$ 35,367</u>
Operating income (loss)		
IT	\$ (3,227)	\$ (1,930)
Professional sales service	7,217	10,024
Equipment	(1,064)	(2,444)
Corporate	(1,362)	(1,711)
Total operating income	<u>\$ 1,564</u>	<u>\$ 3,939</u>
Capital expenditures		
IT	\$ 1,567	\$ 449
Professional sales service	238	242
Equipment	59	201
Corporate	2	1
Total cash capital expenditures	<u>\$ 1,866</u>	<u>\$ 893</u>
Identifiable Assets		
	December 31, 2016	December 31, 2015
IT	\$ 27,724	\$ 25,278
Professional sales service	14,611	13,854
Equipment	7,446	8,735
Corporate	7,600	2,551
Total assets	<u>\$ 57,381</u>	<u>\$ 50,418</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

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 \$508,000 higher allocations for the year ended December 31, 2016 as compared to the corresponding period of the prior year. The professional sales service segment received \$323,000 lower allocations and the equipment segment received \$185,000 lower allocations for the year ended December 31, 2016 as compared to the corresponding period of the prior year.

For the years ended December 31, 2016 and 2015, GEHC accounted for 39% and 55% of revenue, respectively. Also, GEHC accounted for \$7.9 million, or 62%, and \$8.1 million, or 69%, of accounts and other receivables at December 31, 2016 and 2015, respectively.

Our revenues were derived from the following geographic areas:

	<i>(in thousands)</i>	
	For the year ended	
	December 31, 2016	December 31, 2015
Domestic (United States)	\$ 70,075	\$ 53,860
Non-domestic (foreign)	2,514	3,222
	<u>\$ 72,589</u>	<u>\$ 57,082</u>

## NOTE D – ACCOUNTS AND OTHER RECEIVABLES

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

	<i>(in thousands)</i>	
	December 31, 2016	December 31, 2015
Trade receivables	\$ 16,470	\$ 15,252
Due from employees	430	231
Allowance for doubtful accounts and commission adjustments	(4,159)	(3,863)
Accounts and other receivables, net	<u>\$ 12,741</u>	<u>\$ 11,620</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 estimated future changes in sales order amounts that may reduce the amount the Company will ultimately receive under the GEHC Agreement. Due from employees primarily reflects commission advances made to sales personnel.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

## NOTE E – INVENTORIES, NET

Inventories, net of reserves, consisted of the following:

	<i>(in thousands)</i>	
	December 31, 2016	December 31, 2015
Raw materials	\$ 501	\$ 497
Work in process	727	392
Finished goods	1,167	1,074
	<u>\$ 2,395</u>	<u>\$ 1,963</u>

At December 31, 2016 and 2015, the Company maintained reserves for slow moving inventories of \$827,000 and \$861,000, respectively.

## NOTE F – PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows:

	<i>(in thousands)</i>	
	December 31, 2016	December 31, 2015
Office, laboratory and other equipment	\$ 2,756	\$ 1,586
Equipment furnished for customer or clinical uses	4,981	3,992
Furniture and fixtures	119	286
	<u>7,856</u>	<u>5,864</u>
Less: accumulated depreciation	(3,835)	(2,976)
Property and equipment, net	<u>\$ 4,021</u>	<u>\$ 2,888</u>

Depreciation expense amounted to approximately \$1,020,000 and \$505,000 for the years ended December 31, 2016 and 2015, respectively.

## NOTE G – GOODWILL AND OTHER INTANGIBLES

All goodwill at January 1, 2015 was attributable to the Equipment segment. Goodwill of \$14,375,000 generated by the acquisition of NetWolves in 2015 is attributable to the IT segment. The changes in the carrying amount of goodwill are as follows:

	<i>(in thousands)</i>	
	Carrying amount for the year ended	
	December 31, 2016	December 31, 2015
Beginning of year	\$ 17,484	\$ 3,288
Foreign currency translation	(204)	(179)
Acquisition of Netwolves	-	14,375
End of year	<u>\$ 17,280</u>	<u>\$ 17,484</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

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 table:

	<i>(in thousands)</i>	
	December 31, 2016	December 31, 2015
Customer-related		
Costs	\$ 5,831	\$ 5,831
Accumulated amortization	(1,768)	(926)
	<u>4,063</u>	<u>4,905</u>
Patents and Technology		
Costs	2,363	2,423
Accumulated amortization	(1,061)	(806)
	<u>1,302</u>	<u>1,617</u>
Software		
Costs	1,394	1,182
Accumulated amortization	(763)	(727)
	<u>631</u>	<u>455</u>
	<u>\$ 5,996</u>	<u>\$ 6,977</u>

The Company owns eleven US patents including eight utility and three design patents that expire at various times through 2023, and, through our Chinese subsidiaries, thirteen invention and utility patents in China expiring at various times through 2024. The Company also holds one patent for secure and remote monitoring management through its NetWolves subsidiary. Costs incurred for submitting the applications to the United States Patent and Trademark Office and other foreign authorities for these patents have been capitalized. Patent and technology costs are being amortized using the straight-line method over 10-year and 8-year lives, respectively. The Company begins amortizing patent costs once a filing receipt is received stating the patent serial number and filing date from the Patent Office or other foreign authority. The 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 approximately \$1,138,000 and \$1,035,000 for the years ended December 31, 2016 and 2015, respectively. Amortization of intangibles for the next five years is:

	<i>(in thousands)</i>	
Years ending December 31,		
2017	\$	1,125
2018		971
2019		849
2020		765
2021		439
<b>Total</b>	<u>\$</u>	<u>4,149</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

## NOTE H – OTHER ASSETS

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

	<i>(in thousands)</i>	
	December 31, 2016	December 31, 2015
Deferred commission expense - noncurrent	\$ 2,967	\$ 2,083
Trade receivables - noncurrent	1,064	1,025
Other, net of allowance for loss on loan receivable of \$412 at December 31, 2016 and \$0 at December 31, 2015	970	1,207
	<u>\$ 5,001</u>	<u>\$ 4,315</u>

## NOTE I – DEFERRED REVENUE

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

	<i>(in thousands)</i>	
	For the year ended	
	December 31, 2016	December 31, 2015
Deferred revenue at beginning of year	\$ 18,516	\$ 22,532
Additions:		
Deferred extended service contracts	502	654
Deferred in-service and training	23	18
Deferred service arrangements	55	40
Deferred commission revenues	13,120	10,674
Recognized as revenue:		
Deferred extended service contracts	(753)	(857)
Deferred in-service and training	(28)	(15)
Deferred service arrangements	(47)	(69)
Deferred commission revenues	(11,984)	(14,461)
Deferred revenue at end of year	19,404	18,516
Less: current portion	7,628	9,480
Long-term deferred revenue at end of year	<u>\$ 11,776</u>	<u>\$ 9,036</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

## NOTE J – ACCRUED EXPENSES AND OTHER LIABILITIES

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

	<i>(in thousands)</i>	
	December 31, 2016	December 31, 2015
Accrued compensation	\$ 1,133	\$ 1,589
Accrued expenses - other	1,140	1,414
Other liabilities	3,002	1,508
	<u>\$ 5,275</u>	<u>\$ 4,511</u>

## NOTE K – RELATED-PARTY TRANSACTIONS

One of the Company's directors, Peter Castle, was the Chief Executive Officer and President of NetWolves Network Services, LLC, which we acquired in May 2015. 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 Asset Purchase Agreement.

The Company obtained an opinion regarding the fairness of the purchase price for the NetWolves entities from a reputable, independent third-party investment banking firm. Of the \$18,000,000 purchase price paid for the acquisition, \$14,200,000 was from the Company's cash on hand and the remaining \$3,800,000 was raised from the sale of a Subordinated Secured Note to MedTech. Of the \$4,800,000 borrowed from MedTech at December 31, 2015, \$2,200,000 was provided by six of our directors or members of their families and an additional \$100,000 was provided by Joshua Markowitz prior to his joining the board of directors in June 2015. The Medtech Notes bear interest at 9% per annum. No additional amounts were borrowed from MedTech in 2016.

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 December 31, 2016, the Company had contributed capital of \$522,000 to VSK, and had an amount due to VSK of \$378,000, net. The Company's pro-rata share in VSK's loss from operations approximated \$8,600 year ended December 31, 2016, and is included in interest and other income (expense), net in the accompanying consolidated statements of income and comprehensive income. VSK earned approximately \$394,000 for the year ended December 31, 2015. 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. Such targets were not achieved in 2015 but were achieved in 2016.

David Lieberman, a practicing attorney in the State of New York, serves as Vice Chairman of the Board of Directors. He is currently a senior partner at the law firm of Beckman, Lieberman & Barandes, LLP, which performs certain legal services for the Company. Fees of approximately \$340,000 and \$304,000 were billed by the firm for the years ended December 31, 2016 and 2015, respectively, at which dates no amounts were outstanding.

On August 6, 2014 the Company acquired all of the outstanding shares of Genwell Instruments Co. Ltd. ("Genwell"), located in Wuxi, China, through its wholly owned subsidiary Wuxi Gentone Instruments Co. Ltd. ("Gentone") for cash and notes of Chinese Yuan RMB13,250,000 (approximately \$2,151,000 at the acquisition date). The Company issued the RMB6,250,000 note as part of the acquisition payment and, in May 2015, modified the note to change the interest rate from 5% to 9% per annum, effective August 28, 2015, and to extend the maturity date from August 26, 2015 to August 26, 2019. In July 2016, the Company made partial principal payments aggregating RMB1,750,000 (approximately \$266,000), plus accrued interest, on notes payable to the president of LET and the president of Biox. Unsecured notes and accrued interest aggregating \$663,000, and \$993,000 was payable to the president of LET and the president of Biox at December 31, 2016 and 2015, respectively.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

## NOTE L – DEBT AND LEASE OBLIGATIONS

Debt and lease obligations consist of the following:

	<i>(in thousands)</i>	
	December 31, 2016	December 31, 2015
Line of credit	\$ 3,780	\$ 1,076
Unsecured term loan	144	154
Notes payable - DFS	198	452
Notes payable - MedTech (net of \$79 and \$111 in debt issue costs at December 31, 2016 and December 31, 2015, respectively)	4,721	4,689
Notes payable - related parties	648	963
Capital lease obligations	337	-
Subtotal	9,828	7,334
Less: current portion	(4,245)	(1,485)
	<u>\$ 5,583</u>	<u>\$ 5,849</u>

## Line of Credit

In July 2015, NetWolves' lending institution extended its \$2.0 million line of credit and increased the maximum borrowings to \$3.0 million. In August 2016, NetWolves' lending institution again 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 3.02% and 2.68% at December 31, 2016 and 2015, respectively) and are secured by substantially all of the assets of NetWolves Network Services, LLC and guaranteed by Vaso Corporation. At December 31, 2016, the Company had drawn approximately \$3.8 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 December 31, 2016. The line of credit agreement includes certain financial covenants. At December 31, 2016, the Company was in compliance with such covenants.

*Unsecured Term Loan*

In November 2014, Biox entered into an unsecured term loan of Chinese Yuan RMB1,000,000 (approximately \$163,000) with a Chinese bank. The loan term was one year and bore interest at 6.72%, payable monthly. In November 2015 and November 2016, Biox extended the loan for an additional year maturing on November 30, 2016 and November 30, 2017, respectively, with interest at 5.22% per year.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

*Notes Payable*

The Company financed certain NetWolves equipment purchases through notes payable to Dell Financial Services ("DFS"). The notes, which are secured by the financed equipment, bear interest at a fixed rate of 6.55% per annum and are payable in 36 monthly installments.

On May 29, 2015, the Company entered into a Note Purchase Agreement with 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 June 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 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.

*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 consolidated balance sheets. The future minimum lease payments as of December 31, 2016 are set forth in the following table:

	<i>(in thousands)</i>
Years ending December 31,	
2017	\$ 148
2018	148
2019	<u>86</u>
	382
Portion representing interest	(33)
Portion representing executory costs	(12)
Total capital lease obligations	<u>\$ 337</u>

Total amounts payable by the Company under its various debt and capital lease obligations outstanding as of December 31, 2016 are:

	<i>(in thousands)</i>		
Years ending December 31,	Debt	Capital leases	Total
2017	\$ 4,122	\$ 123	\$ 4,245
2018	-	132	132
2019	<u>5,448</u>	<u>82</u>	<u>5,530</u>
<b>Total</b>	<u>\$ 9,570</u>	<u>\$ 337</u>	<u>\$ 9,907</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

## NOTE M – STOCKHOLDERS' EQUITY

*Chinese subsidiaries dividends and statutory reserves*

The payment of dividends by entities organized in China is subject to limitations. In particular, regulations in China currently permit payment of dividends only out of accumulated profits as determined in accordance with PRC accounting standards and regulations. Based on People's Republic of China (PRC) accounting standards, our Chinese subsidiaries are also required to set aside at least 10% of after-tax profit each year to their general reserves until the accumulative amount of such reserves reaches 50% of the registered capital. As of December 31, 2016 and 2015, statutory reserves aggregating approximately \$35,000 were recorded in the Company's consolidated balance sheets. These reserves are not distributable as cash dividends. In addition, they are required to allocate a portion of their after-tax profit to their staff welfare and bonus fund at the discretion of their respective boards of directors. Moreover, if any of our PRC subsidiaries incurs debt on its own behalf in the future, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us. Distribution of dividends from the Chinese operating companies to foreign shareholders is subject to a 10% withholding tax.

## NOTE N - OPTION PLANS

## 1999 Stock Option Plan

In July 1999, the Company's Board of Directors approved the 1999 Stock Option Plan ("the 1999 Plan"), for which the Company reserved an aggregate of 2,000,000 shares of common stock. The 1999 Plan provides that a committee of the Board of Directors of the Company will administer it and that the committee will have full authority to determine the identity of the recipients of the options and the number of shares subject to each option. Options granted under the 1999 Plan may be either incentive stock options or non-qualified stock options. The option price shall be 100% of the fair market value of the common stock on the date of the grant (or in the case of incentive stock options granted to any individual principal stockholder who owns stock possessing more than 10% of the total combined voting power of all voting stock of the Company, 110% of such fair market value). The term of any option may be fixed by the committee but in no event shall exceed ten years from the date of grant. Options are exercisable upon payment in full of the exercise price, either in cash or in common stock valued at fair market value on the date of exercise of the option. In July 2000, the Company's Board of Directors increased the number of shares authorized for issuance under the 1999 Plan by 1,000,000 shares to 3,000,000 shares. In December 2001, the Board of Directors of the Company increased the number of shares authorized for issuance under the 1999 Plan by 2,000,000 shares to 5,000,000 shares.

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

During the year ended December 31, 2016, options to purchase 200,000 shares of common stock under the 1999 Plan at an exercise price of \$0.22 were retired.

*2004 Stock Option and Stock Issuance Plan*

In October 2004, the Company's stockholders approved the 2004 Stock Option and Stock Issuance Plan ("the 2004 Plan"), for which the Company reserved an aggregate of 2,500,000 shares of common stock. The 2004 Plan is divided into two separate equity programs: (i) the Option Grant Program under which eligible persons ("Optionees") may, at the discretion of the Board of Directors, be granted options to purchase shares of common stock; and (ii) the Stock Issuance Program under which eligible persons ("Participants") may, at the discretion of the Board of Directors, be issued shares of common stock directly, either through the immediate purchase of such shares or as a bonus for services rendered to the Company.

Options granted under the 2004 Plan shall be non-qualified or incentive stock options and the exercise price is the fair market value of the common stock on the date of grant except that for incentive stock options it shall be 110% of the fair market value if the Optionee owns 10% or more of our common stock. The term of any option may be fixed by the Board of Directors or committee but in no event shall exceed ten years from the date of grant. Stock options granted under the 2004 Plan may become exercisable in one or more installments in the manner and at the time or times specified by the committee. Options are exercisable upon payment in full of the exercise price, either in cash or in common stock valued at fair market value on the date of exercise of the option. The term for which options or stock may be granted under the 2004 Plan expired July 12, 2014.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

Under the stock issuance program, the purchase price per share shall be fixed by the Board of Directors or committee but cannot be less than the fair market value of the common stock on the issuance date. Payment for the shares may be made in cash or check payable to us, or for past services rendered to us and all shares of common stock issued thereunder shall vest upon issuance unless otherwise directed by the committee. The number of shares issuable is also subject to adjustments upon the occurrence of certain events, including stock dividends, stock splits, mergers, consolidations, reorganizations, recapitalizations, or other capital adjustments.

The 2004 Plan provides that a committee of the Board of Directors of the Company will administer it and that the committee will have full authority to determine and designate the individuals who are to be granted stock options or qualify to purchase shares of common stock under the 2004 Plan, the number of shares to be subject to options or to be purchased and the nature and terms of the options to be granted. The committee also has authority to interpret the 2004 Plan and to prescribe, amend and rescind the rules and regulations relating to the 2004 Plan.

During the year ended December 31, 2016, options to purchase 100,000 shares of common stock under the 2004 Plan at an exercise price of \$0.20 were retired.

*2010 Stock Option and Stock Issuance Plan*

On June 17, 2010 the Board of Directors approved the 2010 Stock Plan (the "2010 Plan") for officers, directors, employees and consultants of the Company. The stock issuable under the 2010 Plan shall be shares of the Company's authorized but unissued or reacquired common stock. The maximum number of shares of common stock which may be issued under the 2010 Plan is 5,000,000 shares.

The 2010 Plan is comprised of two separate equity programs, the Options Grant Program, under which eligible persons may be granted options to purchase shares of common stock, and the Stock Issuance Program, under which eligible persons may be issued shares of common stock directly, either through the immediate purchase of such shares or as a bonus for services rendered to the Company.

The 2010 Plan provides that the Board of Directors, or a committee of the Board of Directors, will administer it with full authority to determine the identity of the recipients of the options or shares and the number of options or shares. Options granted under the 2010 Plan may be either incentive stock options or non-qualified stock options. The option price shall be 100% of the fair market value of the common stock on the date of the grant ( or in the case of incentive stock options granted to any individual stockholder possessing more than 10% of the total combined voting power of all voting stock of the Company, 110% of such fair market value). The term of any option may be fixed by the Board of Directors, or its authorized committee, but in no event shall it exceed five years from the date of grant. Options are exercisable upon payment in full of the exercise price, either in cash or in common stock valued at fair market value on the date of exercise of the option.

No shares or options were granted under the 2010 Plan during the year ended December 31, 2016 and no shares were withheld for withholding taxes.

*2013 Stock Option and Stock Issuance Plan*

On October 30, 2013, the Board of Directors approved the 2013 Stock Plan (the "2013 Plan") for officers, directors, employees and consultants of the Company. The stock issuable under the 2013 Plan shall be shares of the Company's authorized but unissued or reacquired common stock. The maximum number of shares of common stock which may be issued under the 2013 Plan is 7,500,000 shares.

The 2013 Plan is comprised of two separate equity programs, the Options Grant Program, under which eligible persons may be granted options to purchase shares of common stock, and the Stock Issuance Program, under which eligible persons may be issued shares of common stock directly, either through the immediate purchase of such shares or as a bonus for services rendered to the Company.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

During the year ended December 31, 2016, 3,676,307 restricted shares of common stock were granted under the 2013 Plan to employees of the Company, vesting at various times through December 2020, 265,000 shares were forfeited, and 39,038 shares were withheld for withholding taxes.

No options were granted under the 2013 Plan during the year ended December 31, 2016.

*2016 Stock Option and Stock Issuance Plan*

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.

Stock option activity under all the plans for the year ended December 31, 2016 is summarized as follows:

	Shares Available for Future Issuance	Number of Shares	Outstanding Options	
			Range of Exercise Price per Share	Weighted Average Exercise Price
Balance at December 31, 2015	-	900,000	\$ 0.12 - \$0.22	\$ 0.15
Options granted	-	-		
Options exercised	-	-		
Options canceled under 1999 Plan	-	(200,000)		\$ 0.22
Options canceled under 2004 Plan	-	(100,000)		\$ 0.20
Balance at December 31, 2016	-	600,000	\$ 0.12	\$ 0.12

The following table summarizes information about stock options outstanding and exercisable at December 31, 2016:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding at December 31, 2016	Weighted Average Remaining Contractual Life (yrs.)	Weighted Average Exercise Price	Number Exercisable at December 31, 2016	Weighted Average Exercise Price
\$ 0.12	600,000	0.6	\$ 0.12	600,000	\$ 0.12

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

The aggregate intrinsic value of options outstanding and currently exercisable was \$6,000 at December 31, 2016. The following table summarizes non-vested restricted shares for the year ended December 31, 2016:

	Shares Available for Future Issuance	Unvested shares	Weighted Average Grant Date Fair Value
Balance at December 31, 2015	3,504,215	2,827,500	\$ 0.18
Authorized	7,500,000	-	\$ -
Granted	(7,276,307)	7,276,307	\$ 0.15
Vested	-	(3,036,644)	\$ 0.17
Forfeited	304,038	(304,038)	\$ 0.17
Balance at December 31, 2016	<u>4,031,946</u>	<u>6,763,125</u>	<u>\$ 0.16</u>

There were 67,943,396 remaining authorized shares of common stock after reserves for all stock option plans.

## NOTE O – BUSINESS COMBINATION

**NetWolves Acquisition**

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 the Note to MedTech (See Note L). 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 current allocation of the assets acquired and liabilities assumed based on their estimated fair values as follows:

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

	<i>(in thousands)</i> 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	<u>\$ 18,000</u>

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.

	<i>(in thousands, except per share data)</i> Year ended December 31, 2015 <u>(unaudited)</u>
Revenue	\$ 70,234
Net income	4,007
Earnings per share - basic and diluted	\$ 0.03

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

## NOTE P - INCOME TAXES

The following is a geographical breakdown of income before the provision for income taxes:

	<i>(in thousands)</i>	
	Year ended December 31,	
	2016	2015
Domestic	\$ 1,121	\$ 4,405
Foreign	(20)	(626)
Income before provision for income taxes	\$ 1,101	\$ 3,779

The provision for income taxes consisted of the following:

	<i>(in thousands)</i>	
	Year ended December 31,	
	2016	2015
Current provision (benefit)		
Federal	\$ 8	\$ 92
State	47	208
Foreign	-	(10)
Total current provision	55	290
Deferred provision		
Federal	169	(284)
State	57	(50)
Foreign	-	-
Total deferred provision	226	(334)
Total (benefit) provision for income taxes	\$ 281	\$ (44)
Effective income tax rate	25.52%	-1.16%

Income tax expense for the year ended December 31, 2016 was \$281,000 due primarily to \$226,000 in tax expense related to deferred tax liabilities arising from goodwill generated by the NetWolves acquisition and \$55,000 in federal and state income taxes. Income tax benefit for the year ended December 31, 2015 was \$44,000 consisting mainly of a \$560,000 reduction in the valuation allowance for deferred tax assets, partially offset by \$226,000 higher tax expense related to deferred tax liabilities arising from goodwill generated by the NetWolves acquisition, as well as \$208,000 in state income taxes, \$92,000 in federal alternative minimum taxes, and \$10,000 benefit for foreign taxes. During the year ended December 31, 2015, the Company reviewed previous positive and negative evidence and also reviewed its expected taxable income for future periods and concluded that it is more likely than not that approximately \$560,000 of tax benefits related to net operating loss carryforwards will be utilized in future tax years and, therefore, reduced its valuation allowance during the year ended December 31, 2015 in accordance with ASC 740. In addition, the Company expects to provide a valuation allowance on the remaining future tax benefits until it can sustain a level of profitability that demonstrates its ability to utilize the remaining assets, or other significant positive evidence arises that suggests its ability to utilize the remaining assets. The Company will continue to re-assess its reserves on deferred income tax assets in future periods on a quarterly basis.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

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

	<i>(in thousands)</i>	
	For the year ended	
	December 31, 2016	December 31, 2015
	%	%
Federal statutory rate	34.00	34.00
State income taxes	4.94	8.99
Change in valuation allowance relating to operations	(22.34)	(8.84)
Utilizations of net operating loss carryforward	-	(42.40)
Foreign taxes	-	(0.28)
Alternative minimum tax	-	2.37
Nondeductible expenses	8.92	5.00
	<u>25.52</u>	<u>(1.16)</u>

The effective tax rate increased mainly due to the effects of adjusting the deferred tax asset valuation allowance for the year ended December 31, 2015 to reflect a change in estimate of future taxable income.

As of December 31, 2016, the recorded deferred tax assets were \$17,360,000, reflecting an increase of \$331,000 during the year ended December 31, 2016, which was offset by a valuation allowance of \$15,695,000, reflecting a decrease of \$475,000.

The components of our deferred tax assets and liabilities are summarized as follows:

	<i>(in thousands)</i>	
	December 31, 2016	December 31, 2015
<b>Deferred Tax Assets:</b>		
Net operating loss carryforwards	\$ 14,106	\$ 14,076
Amortization	282	138
Stock-based compensation	73	59
Allowance for doubtful accounts	76	53
Reserve for obsolete inventory	351	364
Tax credits	557	549
Expense accruals	392	442
Deferred revenue	1,523	1,348
Total gross deferred taxes	<u>17,360</u>	<u>17,029</u>
Valuation allowance	(15,695)	(16,170)
Net deferred tax assets	<u>1,665</u>	<u>859</u>
<b>Deferred Tax Liabilities:</b>		
Deferred commissions	(337)	(299)
Goodwill	(607)	(226)
Differences in timing of revenue recognition	(112)	(112)
Depreciation	(613)	-
Total deferred tax liabilities	<u>(1,669)</u>	<u>(637)</u>
Total deferred tax assets (liabilities)	<u>(4)</u>	<u>222</u>
<b>Recorded as:</b>		
Non-current deferred tax assets (in other assets)	108	334
Non-current deferred tax liabilities	(112)	(112)
Total deferred tax assets (liabilities)	<u>\$ (4)</u>	<u>\$ 222</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

The activity in the valuation allowance is set forth below:

	<i>(in thousands)</i>	
	2016	2015
Valuation allowance, January 1,	\$ 16,170	\$ 18,544
Partial release of allowance	-	(560)
Change in valuation allowance	(475)	(1,814)
Valuation allowance, December 31,	<u>\$ 15,695</u>	<u>\$ 16,170</u>

At December 31, 2016, the Company had net operating loss carryforwards for federal and state income tax purposes of approximately \$35 million expiring at various dates from 2020 through 2033. No net operating loss carryforwards expired in the years ended December 31, 2016 and 2015.

Under current tax law, the utilization of tax attributes will be restricted if an ownership change, as defined, were to occur. Section 382 of the Internal Revenue Code provides, in general, that if an "ownership change" occurs with respect to a corporation with net operating and other loss carryforwards, such carryforwards will be available to offset taxable income in each taxable year after the ownership change only up to the "Section 382 Limitation" for each year (generally, the product of the fair market value of the corporation's stock at the time of the ownership change, with certain adjustments, and a specified long-term tax-exempt bond rate at such time). The Company's ability to use its loss carryforwards will be limited in the event of an ownership change.

## NOTE Q - COMMITMENTS AND CONTINGENCIES

*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 June 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 with certain conditions. These circumstances include not materially achieving certain sales goals, not maintaining a minimum number of sales representatives, and various legal and GEHC policy requirements. Under the terms of the agreement, the Company is required to lease dedicated computer equipment from GEHC for connectivity to their network.

*Facility Leases*

In September 2015, the Company relocated its offices from Westbury to a facility in Plainview, New York, under a seven-year agreement expiring in September 2022. The Company also leases offices in New York City under a five-year agreement expiring May 2017. NetWolves houses its operations in leased facilities in Tampa, Florida, under an agreement expiring in May 2017. VHC-IT leases a facility in Nashville, Tennessee pursuant to a one-year lease expiring April 2017. The Company is evaluating possible renewal options and believes sufficient space is available at similar cost in both Tampa and Nashville. FGE leases facilities in Wuxi, China, pursuant to leases expiring in August 2017, September 2017, and December 2020; and a facility in Foshan, China, pursuant to a lease that expired in April 2016, but is currently on a month to month basis with a six month notice requirement. Such leases are renewable upon expiration.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

*Vehicle Lease Agreement*

In June 2011, the Company began taking deliveries under a closed-end master lease agreement for the provision of vehicles to the sales team of its professional sales service segment. Vehicles obtained under the terms of the agreement are leased generally for a 36-month term, and payments are fixed for each year of the agreement, subject to readjustment at the beginning of the second and third year.

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

For the years ended December 31,	(in thousands)			
	Vehicles	Facilities	Equipment	Total
2017	\$ 311	\$ 163	\$ 42	\$ 516
2018	185	119	18	322
2019	69	121	-	190
2020	-	124	-	124
2021	-	76	-	76
Thereafter	-	55	-	55
<b>Total</b>	<b>\$ 565</b>	<b>\$ 658</b>	<b>\$ 60</b>	<b>\$ 1,283</b>

Rental expense for all operating leases totaled approximately \$880,000 and \$713,000 for the years ended December 31, 2016 and 2015, respectively.

*Employment Agreements*

On March 21, 2011, the Company entered into an Employment Agreement with its President and Chief Executive Officer, Dr. Jun Ma, for a three-year term ended on March 14, 2014. The agreement was amended in 2013 and again in 2015 to provide for a continuing three-year term, unless earlier terminated by the Company, but in no event can extend beyond March 14, 2021. The Employment Agreement currently provides for annual compensation of \$375,000. Dr. Ma shall be eligible to receive a bonus for each fiscal year thereafter during the employment term. The amount and the occasion for payment of such bonus, if any, shall be at the discretion of the Board of Directors. Dr. Ma shall also be eligible for an award under any long-term incentive compensation plan and grants of options and awards of shares of the Company's stock, as determined at the Board of Directors' discretion. The Employment Agreement further provides for reimbursement of certain expenses, and certain severance benefits in the event of termination prior to the expiration date of the Employment Agreement.

On June 1, 2015, the Company entered into an Employment Agreement with Mr. Peter Castle to be its Chief Operating Officer. The agreement provides for a three-year term ending on June 1, 2018 and shall extend for additional one-year periods annually commencing June 1, 2018, unless earlier terminated by the Company, but in no event can extend beyond June 1, 2021. The Employment Agreement currently provides for annual compensation of \$350,000. Mr. Castle shall be eligible to receive a bonus for each fiscal year thereafter during the employment term. The amount and the occasion for payment of such bonus, if any, shall be at the discretion of the Board of Directors. Mr. Castle shall also be eligible for an award under any long-term incentive compensation plan and grants of options and awards of shares of the Company's stock, as determined at the Board of Directors' discretion. The Employment Agreement further provides for reimbursement of certain expenses, and certain severance benefits in the event of termination prior to the expiration date of the Employment Agreement.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

*Licensing and Support Service Agreement*

In 2010, NetWolves executed a licensing and support service agreement for the upgrade of its billing system. The agreement initially was set to expire in December 2014; however, it was extended for a period of two years in June 2013 with an automatic one-year renewal thereafter, and accordingly now expires in December 2017. The agreement provides for monthly recurring charges based on a percentage of billed revenues using these services, which charges aggregated approximately \$381,000 in 2016.

*Letters of Credit*

At December 31, 2016 we are contingently liable under two standby letters of credit approximating \$270,500 in total. The letters of credit are being maintained as security for debt service payments to two vendors.

*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.

*Foreign operations*

During the years ended December 31, 2016 and 2015, the Company had and continues to have operations in China. Operating transactions in China are denominated in RMB, which is not freely convertible into foreign currencies. Operating internationally involves additional risks relating to such things as currency exchange rates, different legal and regulatory environments, political, economic risks relating to the stability or predictability of foreign governments, differences in the manner in which different cultures do business, difficulties in staffing and managing foreign operations, differences in financial reporting, operating difficulties, and other factors. The occurrence of any of these risks, if severe enough, could have a material adverse effect on the consolidated financial position, results of operations and cash flows of the Company.

Commercial law is still developing in China and there are limited legal precedents to follow in commercial transactions. There are many tax jurisdictions each of which may have changing tax laws. Applicable taxes include value added taxes ("VAT"), corporate income tax, and social (payroll) taxes. Regulations are often unclear. Tax declarations (reports) are subject to review and taxing authorities may impose fines, penalties and interest. These facts create risks in China.

## NOTE R - 401(k) PLANS

The Company maintained two defined contribution plans during 2016 to provide retirement benefits for its employees - the Vasomedical, Inc. 401(k) Plan adopted in April 1997, and the NetWolves Network Services, LLC 401(k) Plan adopted in January 2015. As allowed under Section 401(k) of the Internal Revenue Code, the plans provide tax-deferred salary deductions for eligible employees. Employees are eligible to participate in the next quarter enrollment period after employment under the Vasomedical Plan and after six months employment under the NetWolves Plan. Participants may make voluntary contributions to the plan up to 80% of their compensation under the Vasomedical Plan, or up to the maximum allowed by law under the NetWolves Plan. In the years ended December 31, 2016 and 2015 the Company made discretionary contributions of approximately \$67,000 and \$95,000, respectively, to match a percentage of employee contributions. The Company terminated the NetWolves Plan in December 2016 and made its participants eligible to enroll in the Vasomedical Plan in January 2017.

## NOTE S – SUBSEQUENT EVENT

In March 2017, the Company granted 975,000 shares of restricted common stock, vesting April 2017, to officers and key employees under the 2016 Stock Plan.

**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 report on Form 10-K 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(s) 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(s) 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

Dated: March 30, 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 Beecher, certify that:

1. I have reviewed this report on Form 10-K 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(s) 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(s) 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 Beecher  
Michael Beecher  
Chief Financial Officer

Dated: March 30, 2017

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

I, Jun Ma, President and Chief Executive Officer of Vaso Corporation (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

- (1) the Annual Report on Form 10-K of the Company for the year ended December 31, 2016 (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 30, 2017

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

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

I, Michael Beecher, Chief Financial Officer of Vaso Corporation (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

- (1) the Annual Report on Form 10-K of the Company for the year ended December 31, 2016 (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 30, 2017

/s/ Michael Beecher  
Michael Beecher  
Chief Financial Officer