

TSS, Inc.  
Form 10-Q  
August 14, 2018

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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2018

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number: 001-33627

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**TSS, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of

**20-2027651**  
(I.R.S. Employer Identification No.)

incorporation or organization)

**110 E. Old Settlers Blvd**

**78664**

**Austin, Texas**

(Address of principal executive offices) (Zip Code)

**(512) 310-1000**

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Accelerated filer

Smaller reporting company

Emerging growth company

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

Indicated by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

<b>Number of shares of common stock outstanding as of August 14, 2018</b>	<b>16,277,130</b>
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**TSS, INC.**

**QUARTERLY REPORT ON FORM 10Q**

**For the Quarterly Period Ended June 30, 2018**

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**“SAFE HARBOR” STATEMENT**

**UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995**

From time to time, we make oral and written statements that may constitute “forward-looking statements” (rather than historical facts) as defined in the Private Securities Litigation Reform Act of 1995 or by the Securities and Exchange Commission (the “SEC”) in its rules, regulations and releases, including Section 27A of the Securities Act of 1933, as amended (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). We desire to take advantage of the “safe harbor” provisions in the Private Securities Litigation Reform Act of 1995 for forward looking statements made from time to time, including, but not limited to, the forward- looking statements made in this Quarterly Report on Form 10-Q (the “Form 10-Q”), as well as those made in other filings with the SEC.

Forward looking statements can be identified by our use of forward looking terminology such as “may,” “will,” “expect,” “anticipate,” “estimate,” “believe,” “continue,” “forecast,” “foresee” or other similar words. Such forward looking statements are based on management’s current plans and expectations and are subject to risks, uncertainties and changes in plans that could cause actual results to differ materially from those described in the forward-looking statements. Important factors that could cause actual results to differ materially from those anticipated in our forward-looking statements include, but are not limited to, those described under *Risk Factors* set forth in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

We expressly disclaim any obligation to release publicly any updates or any changes in our expectations or any changes in events, conditions or circumstances on which any forward-looking statement is based.

As used herein, except as otherwise indicated by the context, the terms “TSS,” “Company,” “we”, “our” and “us” are used to refer to TSS, Inc. and its subsidiaries.

**PART I - FINANCIAL INFORMATION****Item 1. Financial Statements****TSS, Inc.****Consolidated Balance Sheets****(in thousands except par values)**

	<b>June 30, 2018 (unaudited)</b>	<b>December 31, 2017</b>
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 3,312	\$2,268
Contract and other receivables, net	1,524	990
Costs and estimated earnings in excess of billings on uncompleted contracts	325	223
Inventories, net	97	134
Prepaid expenses and other current assets	270	114
Total current assets	5,528	3,729
Property and equipment, net	423	418
Goodwill	1,907	1,907
Intangible assets, net	494	561
Other assets	109	112
Total assets	\$ 8,461	\$6,727
<b>Current Liabilities:</b>		
Accounts payable and accrued expenses	\$ 2,901	\$2,841
Deferred revenues	3,406	2,494
Total current liabilities	6,307	5,335
Long-term borrowings	1,748	1,656
Deferred revenue – noncurrent portion	150	-
Other liabilities	48	41
Total liabilities	8,253	7,032
Commitments and Contingencies	-	-
<b>Stockholders' Equity (Deficit):</b>		
Preferred stock, \$.0001 par value; 1,000 shares authorized at June 30, 2018 and December 31, 2017; none issued	-	-

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Common stock, \$.0001 par value; 49,000 shares authorized at June 30, 2018 and December 31, 2017; 16,286 and 16,316 issued; 15,517 and 15,547 outstanding at June 30, 2018 and December 31, 2017, respectively	2	2
Additional paid-in capital	69,001	68,886
Treasury stock 769 shares at cost at June 30, 2018 and December 31, 2017	(1,536 )	(1,536 )
Accumulated deficit	(67,259 )	(67,657 )
Total stockholders' equity (deficit)	208	(305 )
Total liabilities and stockholders' equity (deficit)	\$ 8,461	\$6,727

See accompanying notes to the consolidated financial statements.

**TSS, Inc.****Consolidated Statements of Operations****(in thousands, except per-share amounts; unaudited)**

	<b>Three Months</b>		<b>Six Months</b>	
	<b>Ended June 30</b>		<b>Ended June 30</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Results of Operations:				
Revenue	\$5,367	\$4,198	\$10,216	\$8,587
Cost of revenue	3,302	2,444	6,285	4,974
Gross profit	2,065	1,754	3,931	3,613
Selling, general and administrative expenses	1,516	1,555	3,093	3,298
Depreciation and amortization	100	125	206	263
Gain on sale of business component	-	-	-	(321 )
Total operating costs	1,616	1,680	3,299	3,240
Income from operations	449	74	632	373
Other income (expense):				
Interest expense, net	(111 )	(74 )	(204 )	(151 )
Other income (expense), net	-	(3 )	-	(3 )
Income (loss) from operations before income taxes	338	(3 )	428	219
Income tax (benefit) expense	19	21	30	(10 )
Net income (loss)	\$319	\$(24 )	\$398	\$229
Basic income (loss) per common share	\$0.02	\$(0.00 )	\$0.02	\$0.01
Diluted income (loss) per common share	\$0.02	\$(0.00 )	\$0.02	\$0.01

See accompanying notes to the consolidated financial statements.



TSS, Inc.

**Consolidated Statements of Changes in Stockholders' Equity (Deficit)****For the Six Months Ended June 30, 2018****(in thousands, except share amounts, unaudited)**

	<b>Common Stock</b>		<b>Additional</b>	<b>Treasury</b>		<b>Accumulated</b>	<b>Total</b>
	<b>Shares</b>	<b>Amount</b>	<b>Paid-in Capital</b>	<b>Shares</b>	<b>Amount</b>	<b>Deficit</b>	<b>Stockholders' Equity (Deficit)</b>
Balance January 1, 2018	16,316	\$ 2	\$ 68,886	769	\$(1,536 )	\$( 67,657 )	\$( 305 )
Restricted stock cancelled	(30 )	-	-	-	-	-	-
Stock-based compensation	-	-	115	-	-	-	115
Net income	-	-	-	-	-	398	398
Balance at June 30, 2018	16,286	\$ 2	\$ 69,001	769	\$(1,536 )	\$( 67,259 )	\$ 208

See accompanying notes to the consolidated financial statements.

**TSS, Inc.****Consolidated Statements of Cash Flows****(in thousands; unaudited)**

	<b>Six Months</b>	
	<b>Ended June 30,</b>	
	<b>2018</b>	<b>2017</b>
<b>Cash Flows from Operating Activities:</b>		
Net income	\$ 398	\$ 229
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	206	263
Non-cash interest	49	-
Amortization of debt discount	43	20
Stock-based compensation	115	37
Gain on sale of business component	-	(321 )
Changes in operating assets and liabilities:		
Contract and other receivables	(534 )	1,194
Costs and estimated earnings in excess of billings on uncompleted contracts	(102 )	239
Inventories, net	37	(63 )
Prepaid expenses and other assets	(153 )	(210 )
Accounts payable and accrued expenses	60	(2,375)
Deferred revenues	1,062	270
Other liabilities	7	(39 )
Net cash provided by (used in) operating activities	1,188	(756 )
<b>Cash Flows from Investing Activities:</b>		
Capital expenditures	(144 )	(80 )
Proceeds from sale of business component	-	314
Net cash provided by (used in) investing activities	(144 )	234
<b>Cash Flows from Financing Activities:</b>		
Payment on long-term borrowings	-	(150 )
Repayment under receivables factoring agreement	-	(453 )
Repurchase of treasury stock	-	(1 )
Net cash used in financing activities	-	(604 )
Net increase (decrease) in cash and cash equivalents	1,044	(1,126)
Cash and cash equivalents at beginning of period	2,268	2,152
Cash and cash equivalents at end of period	\$3,312	\$1,026
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for interest	\$ 116	\$ 132
Cash paid for taxes	\$ 39	\$ 19

See accompanying notes to the consolidated financial statements.



**TSS, Inc.**

**Notes to Consolidated Statements**

**(unaudited)**

**Note 1 – Significant Accounting Policies**

***Description of Business***

TSS, Inc. (“TSS”, the “Company”, “we”, “us” or “our”) provides a comprehensive suite of services for the planning, design, deployment, maintenance, refresh and take-back of end-user and enterprise systems, including the mission-critical facilities they are housed in. We provide a single source solution for enabling technologies in data centers, operations centers, network facilities, server rooms, security operations centers, communications facilities and the infrastructure systems that are critical to their function. Our services consist of technology consulting, design and engineering, project management, systems integration, systems installation and facilities management. Our corporate offices are in Round Rock, Texas, and we also have an office in Dulles, Virginia.

The accompanying consolidated balance sheet as of December 31, 2017, which has been derived from audited consolidated financial statements, and the unaudited interim consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“US GAAP”) for interim financial statements and pursuant to the rules and regulations of the SEC for interim reporting, and include the accounts of the Company and its consolidated subsidiaries. In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting only of normal recurring items) necessary to present fairly the consolidated financial position of the Company and its consolidated results of operations, changes in stockholders’ equity (deficit) and cash flows. These interim financial statements should be read in conjunction with the consolidated financial statements and accompanying notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017.

The accompanying consolidated financial statements have also been prepared on the basis that the Company will continue to operate as a going concern. Accordingly, assets and liabilities are recorded on the basis that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. Our history of operating losses, negative working capital, and our stockholders’ deficiency cause substantial doubt about our ability to continue to operate our business as a going concern. We have reviewed our current and prospective sources of liquidity, significant conditions and events as well as our forecasted financial results and, while we believe that we have adequate plans to address these issues, there is still substantial doubt about our ability continue as a going concern. Our operating results have improved since 2016 and we achieved operating and net income in 2017 and during the

first two quarters of 2018. During 2016 and 2017 we sold certain parts of our business and discontinued several other services. These actions, along with cost reductions made at that time, provided additional capital for our business, lowered our total operating costs, improved our operating profits, and allowed us to focus our business activities on systems integration and modular data center build and maintenance activities. We also obtained additional debt financing during 2017 and restructured our existing long-term debt to help us improve our liquidity and manage our working capital. We have now eliminated our stockholder's deficit, and believe that with our improved operating results, we are on the path to removing the uncertainty regarding our ability to continue to operate our business as a going concern. We believe that there are further adjustments that could be made to our business if we were required to do so.

Our business plans and our assumptions around the adequacy of our liquidity are based on estimates regarding expected revenues and future costs and our ability to secure additional sources of funding if needed. However, our revenue may not meet our expectations, or our costs may exceed our estimates. Further, our estimates may change, and future events or developments may also affect our estimates. Any of these factors may change our expectation of cash usage in 2018 or significantly affect our level of liquidity, which may require us to take measures to reduce our operating costs or obtain funding to continue operating. Any action to reduce operating costs may negatively affect our range of products and services that we offer or our ability to deliver such products and services, which could materially impact our financial results depending on the level of cost reductions taken. These consolidated financial statements do not include any adjustments that might result from the Company not being able to continue as a going concern.

### ***Revenue Recognition***

On January 1, 2018, we adopted Accounting Standards Update 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09), using the modified retrospective method. Adoption of ASU 2014-09 did not have a material impact on our consolidated financial position or results of operations.

We recognize revenues when control of the promised goods or services is transferred to our customers in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services.

*Maintenance services*

We generate maintenance services revenues from fees that provide our customers with as-needed maintenance and repair services on modular data centers during the contract term. Our contracts are typically one year in duration, are billed annually in advance, and are non-cancellable. As a result, we record deferred revenue (a contract liability) and recognize revenue from these services on a ratable basis over the contract term. We can mitigate our exposure to credit losses by discontinuing services in the event of non-payment, however our history of non-payments and bad debt expense has been insignificant.

*Integration services*

We generate integration services revenues from fees that provide our customers with customized system and rack-level integration services. We recognize revenue upon shipment to the customer of the completed systems as this is when we have completed our services and when the customer obtains control of the promised goods. We typically extend credit terms to our integration customers based on their credit worthiness and generally do not receive advance payments. As such, we record accounts receivable at the time of shipment, when our right to the consideration becomes unconditional. Accounts receivable from our integration customers are typically due within 30-60 days of invoicing. An allowance for doubtful accounts is provided based on a periodic analysis of individual account balances, including an evaluation of days outstanding, payment history, recent payment trends, and our assessment of our customers' credit worthiness. As of June 30, 2018 and December 31, 2017, our allowance for doubtful accounts was \$8,000.

*Equipment sales*

We generate revenues under fixed price contracts from the sale of data center and related ancillary equipment to customers in the United States. We recognize revenue when the product is shipped to the customer as that is when the customer obtains control of the promised goods. Typically, we do not receive advance payments for equipment sales, however if we do, we record the advance payment as deferred revenue. Normally we record accounts receivable at the time of shipment, when our right to the consideration has become unconditional. Accounts receivable from our equipment sales are typically due within 30-45 days of invoicing.

*Deployment and Other services*

We generate revenues from fees we charge our customers for other services, including repairs or other services not covered under maintenance contracts, installation and servicing of equipment including modular data centers that we sold, and other fixed-price services including repair, design and project management services. In some cases, we arrange for a third party to perform warranty and servicing of equipment, and in these instances, we recognize revenue as the amount of any fees or commissions that we expect to be entitled to. Other services are typically invoiced upon completion of services or completion of milestones. We record accounts receivable at the time of completion when our right to consideration becomes unconditional.

Some of our contracts with customers contain multiple performance obligations. For these contracts, we account for individual performance obligations separately if they are distinct. The transaction price is allocated to the separate performance obligations based on relative standalone selling prices.

### *Judgments*

We consider several factors in determining that control transfers to the customer upon shipment of equipment or upon completion of our services. These factors include that legal title transfers to the customer, we have a present right to payment, and the customer has assumed the risks and rewards of ownership at the time of shipment or completion of the services.

### *Sales taxes*

Sales (and similar) taxes that are imposed on our sales and collected from customers are excluded from revenues.

*Shipping and handling costs*

Costs for shipping and handling activities, including those activities that occur subsequent to transfer of control to the customer, are recorded as cost of sales and are expensed as incurred. We accrue costs for shipping and handling activities that occur after control of the promised good or service has transferred to the customer.

The following table shows our revenues disaggregated by reportable segment and by product or service type (in \$'000):

	<b>Three-months ended June 30,</b>		<b>Six-months ended June 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
<b>FACILITIES:</b>				
Maintenance revenues	\$1,236	\$1,143	\$2,402	\$2,247
Equipment sales	492	654	1,127	792
Deployment and other services	1,439	933	3,017	2,178
	\$3,167	\$2,730	\$6,546	\$5,217
<b>SYSTEMS INTEGRATION:</b>				
Integration services	\$2,200	\$1,468	\$3,670	\$3,370
<b>TOTAL REVENUES</b>	<b>\$5,367</b>	<b>\$4,198</b>	<b>\$10,216</b>	<b>\$8,587</b>

*Remaining Performance Obligations*

As part of our adoption of ASU 2014-09, we have elected to use a practical expedient to exclude disclosure of transaction prices allocated to remaining performance obligations, and when we expect to recognize such revenue, for all periods prior to the date of initial application of the standard.

As of June 30, 2018, deferred revenue of \$3,406,000 represents our remaining performance obligations for our maintenance contracts, all of which are expected to be recognized within one year. The remaining \$150,000 of deferred revenue is our remaining performance obligations for other services, all of which is expected to be recognized between one and two years.

*Concentration of Credit Risk*



We are currently economically dependent upon our relationship with a large US-based IT Original Equipment Manufacturer (OEM). If this relationship is unsuccessful or discontinued, our business and revenue would materially suffer. The loss of or a significant reduction in orders from this customer or the failure to provide adequate products or services to it would significantly reduce our revenue.

The following customers accounted for a significant percentage of our revenues for the periods shown:

	<b>Three months ended June 30, 2018</b>		<b>Six Months Ended June 30, 2017</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
US-based IT OEM	67%	63%	71%	63%
Global IT services company	2%	11%	4%	6%

No other customers represented more than 10% of our revenues for any periods presented. Our US-based IT OEM customer represented 24% and 26% of our accounts receivable at June 30, 2018 and December 31, 2017, respectively. A US-based electronic equipment manufacturer represented 22% of our accounts receivable at December 31, 2017. A US-based technology consulting company represented 15% and 23% of our accounts receivable at June 30, 2018 and December 31, 2017, respectively. A US-based data center operator represented 15% of our accounts receivable at June 30, 2018. No other customer represented more than 10% of our accounts receivable at June 30, 2018 or at December 31, 2017.

***Recently Issued Accounting Pronouncements***

In February 2016, the FASB issued ASU No. 2016-02, “*Leases (Topic 842)*”. Under ASU 2016-02, an entity will be required to recognize right-of-use assets and lease liabilities on its balance sheet and disclose key information about leasing arrangements. ASU 2016-02 offers specific accounting guidance for a lessee, a lessor and sale and leaseback transactions. Lessees and lessors are required to disclose qualitative and quantitative information about leasing arrangements to enable a user of the financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. For public companies, ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period. We are currently evaluating the future impact of ASU 2016-02 on our consolidated financial statements and while we do not anticipate this having a material impact on our results of operations, we anticipate recording lease-related assets and liabilities between \$2 - \$2.5 million on our balance sheet upon adoption of the pronouncement.

In May 2017, the FASB issued ASU No. 2017-09, which amends the scope of modification accounting for share-based payment arrangements. The AU provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting under ASC 718. Specifically, an entity would not apply modification accounting if the fair value, vesting conditions, and classification of the awards are the same immediately before and after the modification. ASU 2017-09 will be applied prospectively to awards modified on or after the adoption date. The guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Adoption of this new guidance did not have a material impact on our consolidated financial statements.

**Note 2 – Supplemental Balance Sheet Information***Receivables*

Contract and other receivables consisted of the following (in ‘000’s):

	<b>June 30,</b>	<b>December 31,</b>
	<b>2018</b>	<b>2017</b>
Contract and other receivables	\$1,532	\$ 998

Allowance for doubtful accounts (8 ) (8 )  
 Contracts and other receivables, net \$1,524 \$ 990

### *Inventories*

We state inventories at the lower of cost or net realizable value, using the first-in-first-out-method (in '000's) as follows:

	<b>June 30,</b>	<b>December 31,</b>
	<b>2018</b>	<b>2017</b>
Raw materials	\$ 99	\$ 136
less: Reserve	(2 )	(2 )
Inventories, net	\$ 97	\$ 134

### *Goodwill and Intangible Assets*

Goodwill and Intangible Assets consisted of the following (in '000's):

	<b>June 30, 2018</b>		<b>December 31, 2017</b>	
	<b>Gross</b>		<b>Gross</b>	
	<b>Carrying</b>	<b>Accumulated</b>	<b>Carrying</b>	<b>Accumulated</b>
	<b>Amount</b>	<b>Amortization</b>	<b>Amount</b>	<b>Amortization</b>
<i>Intangible assets not subject to amortization:</i>				
Goodwill	\$1,907	-	\$1,907	-
<i>Intangible assets subject to amortization:</i>				
Customer relationships	\$906	\$ (464 )	\$906	\$ (418 )
Acquired software	\$234	\$ (234 )	\$234	\$ (216 )
Trade name	\$60	(8 )	\$60	(5 )

We recognized amortization expense related to intangibles of approximately \$33,000 and \$36,000, for the three-month periods ended June 30, 2018 and 2017, respectively. We recognized amortization expense related to intangibles of approximately \$67,000 and \$74,000, for the six-month periods ended June 30, 2018 and 2017, respectively

We have elected to use December 31 as our annual date to test goodwill and intangibles for impairment. As circumstances change that could affect the recoverability of the carrying amount of the assets during an interim period, we will evaluate its indefinite lived intangible assets for impairment. We performed a quantitative analysis of our goodwill and intangibles at December 31, 2017 as part of our annual testing for impairment and concluded that there was no impairment. Although there were events and circumstances in existence at December 31, 2017 that suggest substantial doubt about our ability to continue as a going concern, the valuation results indicated that the fair value of our reporting units was greater than the carrying value, including goodwill, for each of our reporting units. Thus, we concluded that there was no impairment at December 31, 2017 for our goodwill and other long-lived intangible assets. There were no identified triggering events or circumstances that occurred during the three or six-month periods ended June 30, 2018 that would have required an interim impairment analysis of our goodwill and other long-lived intangible assets.

#### *Property and Equipment*

Property and equipment consisted of the following (in \$'000):

	<b>Estimated Useful Lives (years)</b>	<b>June 30, 2018</b>	<b>December 31, 2017</b>
Vehicles	5	\$ 32	\$ 32
Trade equipment	5	207	162
Leasehold improvements	2 – 5	378	378
Furniture and fixtures	7	20	18
Computer equipment and software	3	1,543	1,448
		2,180	2,038
Less accumulated depreciation		(1,757)	(1,620 )
Property and equipment, net		\$423	\$ 418

Depreciation of property and equipment and amortization of leasehold improvements and software totaled \$67,000 and \$89,000 the three-month periods ended June 30, 2018 and 2017, respectively. Depreciation of property and equipment and amortization of leasehold improvements and software totaled \$139,000 and \$189,000 for the six-month periods ended June 30, 2018 and 2017, respectively.

*Accounts Payable and Accrued Expenses*

Accounts payable and accrued expenses consisted of the following (in \$'000):

	<b>June 30,  2018</b>	<b>December 31,  2017</b>
Accounts payable	\$1,739	\$ 1,413
Accrued expenses	745	847
Compensation, benefits & related taxes	405	567
Other accrued expenses	12	14
Total accounts payable and accrued expenses	\$2,901	\$ 2,841

**Note 3 – Long term borrowings**

Long-term borrowings consisted of the following (in \$'000):

	<b>June 30,</b>	<b>December 31,</b>
	<b>2018</b>	<b>2017</b>
Notes Payable due July 2022	\$1,995	\$ 1,995
Accrued interest – long term	96	47
Less unamortized discount and debt issuance costs	(343 )	(386 )
	1,748	1,656
Current portion of long-term borrowing	-	-
Non-current portion of long-term borrowing	\$1,748	\$ 1,656

In February 2015, we entered into a multiple advance term loan agreement and related agreements with MHW SPV II, LLC (“MHW”), an entity affiliated with the Chairman of our Board of Directors, for a loan in the maximum amount of \$2 million. We borrowed \$945,000 under this loan agreement on February 3, 2015 and executed a promissory note to evidence this loan and the terms of repayment which requires interest-only payments until maturity.

In July 2017, we amended and restated the terms of this multiple advance term loan agreement whereby we increased the maximum principal amount of loans to \$2.5 million for up to sixty days, and \$2 million thereafter. The term of the loan was modified to be five years from the date of modification, thereby extending the term of the \$945,000 loan to July 19, 2022. As part of this modification, the interest rate on the \$945,000 loan remains at a fixed annual rate of 12%, however it was changed so that 6% is paid in cash monthly in arrears, and 6% is payable in kind, to be evidenced by additional promissory notes having an aggregate principal amount equal to the accrued but unpaid interest. We can prepay the loan at any time, subject to a prepayment fee of (a) 4% if the prepayment is made prior to July 20, 2018, (b) 2% if the prepayment is made between July 20, 2018 and July 19, 2019, and (c) 1% if the prepayment is made between July 20, 2019 and July 19, 2020. The obligations under the loan are secured by substantially all of our assets pursuant to the terms of a security agreement.

In conjunction with entering into the loan agreement, the Company and MHW also entered into a warrant granting MHW the right to purchase up to 1,115,827 shares of the Company’s common stock. As part of the July 2017 modification, we also modified the warrant to change the exercise price of the shares and to extend the term of the warrant to July 19, 2022. The warrant is now exercisable for a period of five years from July 19, 2017 at an exercise price of \$0.10 for the first 390,539 shares, \$0.20 for the next 390,539 shares and \$0.30 for the final 334,749 shares. The exercise price and number of shares of common stock issuable on exercise of the warrant will be subject to

adjustment in the event of any stock split, reverse stock split, recapitalization, reorganization or similar transaction. The fair value of the modified warrant was determined to be approximately \$167,000 and the incremental value of the warrant compared to the original warrant was approximately \$6,000. This amount was added to the remaining unamortized value of the original warrant such that approximately \$93,000 will be amortized using the straight-line method (which approximates the effective interest rate method) over the term of the loan. Approximately \$5,000 and \$8,000 of this amount was amortized during the three-month periods ended June 30, 2018 and 2017, respectively. Approximately \$9,000 and \$17,000 was amortized during the six-month periods ended June 30, 2018 and 2017, respectively.

On July 19, 2017, we also borrowed an additional \$650,000 from MHW Partners, an entity affiliated with MHW. This loan ranks parri-passu with the \$945,000 promissory notes held by MHW and is subject to the same loan agreement. Similar to the notes held by MHW, the note issued to MHW Partners bears interest at 12% per annum payable in cash monthly in arrears at a rate of 6% per annum and payable in kind at a fixed rate of 6% per annum and has a maturity date of July 19, 2022. We can prepay the note issued to MHW Partners at any time, subject to a prepayment fee of (a) 4% if the prepayment is made prior to July 20, 2018, (b) 2% if the prepayment is made between July 20, 2018 and July 19, 2019, and (c) 1% if the prepayment is made between July 20, 2019 and July 19, 2020.

The obligations under the loan agreement and this promissory note are secured by substantially all of the Company's assets pursuant to the terms of an amended and restated security agreement. This security agreement amends and restates the security agreement entered into with MHW in February 2015.

In conjunction with entering into this new loan, we entered into a warrant granting MHW Partners the right to purchase up to 767,500 shares of our common stock. The warrant is exercisable for a period of 5 years from July 19, 2017, at an exercise price of \$0.10 for the first 268,625 shares, \$0.20 for the next 268,625 shares and \$0.30 for the final 230,250 shares. The exercise price and number of shares of common stock issuable upon exercise of this warrant will be subject to adjustment in the event of any stock split, reverse stock split, recapitalization, reorganization or similar transactions. The fair value of the warrant granted was approximately \$115,000. Using the relative-fair value allocation method, the debt proceeds were allocated between the debt value and the fair value of the warrants, resulting in a recognition of a discount on the loan of approximately \$98,000 and a corresponding increase to additional paid-in capital. This discount will be amortized using the effective interest rate method over the term of the loan. Approximately \$5,000 was amortized during the three-month period ended June 30, 2018 and approximately \$10,000 was amortized during the six-month period ended June 30, 2018.

Peter H. Woodward, the Chairman of our Board of Directors, is a principal of MHW Capital Management LLC, which is the investment manager of MHW and MHW Partners. MHW Capital Management LLC is entitled to a performance related fee tied to any appreciation in the valuation of the common stock in excess of the applicable strike price under the warrant.

On October 6, 2017, we entered into an amendment to our multiple advance term loan agreement and the related security agreement with MHW and MHW Partners, to add new lenders to the loan and security agreements. Upon execution, Mr. Glen Ikeda and Mr. Andrew Berg became new lenders to the Company. In accordance with the terms of the Amendment, Mr. Ikeda then provided a loan in the amount of \$300,000 and Mr. Berg provided a loan in the amount of \$100,000 (collectively the “New Loans”).

The New Loans have a maturity date of July 19, 2022. The New Loans do not bear interest and we are permitted to make optional prepayments at any time without premium or penalty, provided that if we prepay the outstanding principal amount of a New Loan prior to the second anniversary of the date of the applicable note, then the total amount of such prepayment will not exceed 95% of the total principal amount of the applicable note and any remaining principal amount under the note shall be fully and finally cancelled, extinguished, forgiven and terminated without further action of any party.

Concurrent with the new loans, we entered into a warrant with Mr. Ikeda granting Mr. Ikeda the right to purchase up to 954,231 shares of our common stock. This warrant is exercisable until July 19, 2022, at an exercise price of \$0.10 for the first 498,981 shares, \$0.20 for the next 273,981 shares and \$0.30 for the final 181,269 shares. The exercise price and number of shares of common stock issuable on exercise of this warrant will be subject to adjustment in the event of any stock split, reverse stock split, recapitalization, reorganization or similar transaction.

Concurrent with the new loans, we entered into a warrant with Mr. Berg granting Mr. Berg the right to purchase up to 318,077 shares of our common stock. This warrant is exercisable until July 19, 2022, at an exercise price of \$0.10 for



the first 166,327 shares, \$0.20 for the next 91,327 shares and \$0.30 for the final 60,423 shares. The exercise price and number of shares of common stock issuable on exercise of this warrant will be subject to adjustment in the event of any stock split, reverse stock split, recapitalization, reorganization or similar transaction.

The fair value of the two warrants granted in connection with the New Loans was approximately \$367,000. Using the relative fair-value allocation method, the debt proceeds were allocated between the debt value and the fair value of the warrants, resulting in a recognition of a discount on the new loans of approximately \$191,000, with a corresponding increase to additional paid-in capital. This discount will be amortized to interest expense over the term of the loan using the straight-line method (which approximates the effective interest rate method). Approximately \$10,000 was amortized during the three-month period ended June 30, 2018 and approximately \$20,000 was amortized during the six-month period ended June 30, 2018.

#### **Note 4 — Sale of Business Component**

On January 31, 2017, we completed the sale of certain identified assets and liabilities associated with a specific customer contract from our project management business for \$350,000 pursuant to an Asset Purchase Agreement (“APA”) dated December 12, 2016 with Tech Site Services, LLC, a privately held Maryland company. The sale price was subject to certain post-closing adjustments relating to working capital and obtaining the consent of the customer as a condition of closing. Tech Site Services, LLC also must pay us an earn-out payment equal to 10% of all revenue generated under the customer contract in excess of \$2.5 million in each 12-month period during the two-year period after the closing of this transaction.

The transaction closed on January 31, 2017. The APA contains representations, warranties, covenants and indemnification provisions customary for a transaction of this type. Many of the representations made by us are subject to, and qualified by materiality or similar concepts. Both parties have agreed to indemnify the other party for certain losses arising from the breach of the APA and for certain other liabilities, subject to specified limitations. In connection with the transaction both parties will provide transition services with respect to the business activities that were sold.

The customer contract and intellectual property sold had a net book value of \$0. As a result of the sale, Tech Site Services LLC assumed liabilities of \$7,000, resulting in \$343,000 of cash proceeds that was paid to us upon closing. Additionally, we incurred approximately \$29,000 in legal, escrow and other expenses that would not have been incurred otherwise. As a result, we recorded a net gain of approximately \$321,000 in our consolidated statement of operations for the three-month period ended March 31, 2017.

On July 1, 2016, we adopted ASU 2014-08 regarding discontinued operations. As a result, we evaluated the sale of a portion of our project maintenance business component in light of this new standard. We concluded that the sale of a portion of our project management business component in January 2017 was not a “material shift” (as defined in ASU 2014-08) for us and therefore, is not considered a discontinued operation. In accordance with ASU 2014-08, the following information is being provided:

	<b>Three Months Ended June 30, 2018</b>	<b>Six Months Ended June 30, 2018</b>
<b>Pre-tax profit related to project management business sold</b>	<b>\$ - \$ 23</b>	<b>\$ - \$ 70</b>

#### **Note 5 - Net Income (Loss) Per-Share**

Basic and diluted income (loss) per share are based on the weighted average number of shares of common stock and potential common stock outstanding during the period. Potential common stock, for the purposes of determining diluted income per share, includes the effects of dilutive unvested restricted stock, options to purchase common stock and convertible securities. The effect of such potential common stock is computed using the treasury stock method or the if-converted method, as applicable.

The following table presents a reconciliation of the numerators and denominators of the basic and diluted income (loss) per share computations for income (loss) from continuing operations. In the table below, income represents the numerator and shares represents the denominator (in thousands except per share amounts).

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
<b>Basic net income (loss) per share:</b>				
Numerator:				
Net income (loss)	\$319	\$(24 )	\$398	\$229
Denominator:				
Weighted-average shares of common stock outstanding	16,277	15,497	16,123	15,512
Basic net income (loss) per share	\$0.02	\$(0.00 )	\$0.02	\$0.01
<b>Diluted net income (loss) per share:</b>				
Numerator:				
Net income (loss)	\$319	\$(24 )	\$398	\$229
Less interest expense on convertible debt	-	-	-	4
	\$319	\$(24 )	\$398	\$225
Denominator:				
Weighted-average shares of common stock outstanding	16,277	15,497	16,123	15,512
Dilutive options and warrants outstanding	2,882	-	2,906	1,065
Effect of conversion of convertible notes				