VASO Corp
Form 10-Q
August 14, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2018

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

Commission File Number: 0-18105

VASO CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	11-2871434
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)

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

Registrant's Telephone Number (516) 997-4600

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

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

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

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if a smaller reporting company)	Smaller reporting company
		Emerging growth company

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

Exchange Act.

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

Number of Shares Outstanding of Common Stock, $.001 Par Value, at August 10, 2018 – 166,719,647

Vaso Corporation and Subsidiaries

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PART I – FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

Vaso Corporation and Subsidiaries

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

	June 30, 2018	December 31, 2017
	(unaudited)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$3,163	$5,245
Accounts and other receivables, net of an allowance for doubtful accounts and commission adjustments of $4,359 at June 30, 2018 and $4,872 at December 31, 2017	10,938	13,225
Receivables due from related parties	19	20
Inventories, net	1,957	2,355
Deferred commission expense	3,324	3,649
Prepaid expenses and other current assets	975	993
Total current assets	20,376	25,487
PROPERTY AND EQUIPMENT, net of accumulated depreciation of $5,637 at June 30, 2018 and $4,980 at December 31, 2017	4,845	4,719
GOODWILL	17,423	17,471
INTANGIBLES, net	4,982	5,254
OTHER ASSETS, net	2,852	3,847
	$50,478	$56,778
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$5,192	$5,423
Accrued commissions	2,005	2,467
Accrued expenses and other liabilities	4,379	5,337
Sales tax payable	912	787
Deferred revenue - current portion	13,544	15,540
Notes payable and capital lease obligations - current portion (Note N)	9,347	3,674
Notes payable - related parties - current portion	85	86

Due to related party	11	390
Total current liabilities	35,475	33,704
LONG-TERM LIABILITIES		
Notes payable and capital lease obligations, net of current portion (Note N)	11	4,834
Notes payable - related parties, net of current portion	255	259
Deferred revenue, net of current portion	6,649	7,526
Deferred tax liability	233	220
Other long-term liabilities	945	1,083
Total long-term liabilities	8,093	13,922
COMMITMENTS AND CONTINGENCIES (NOTE O)		
STOCKHOLDERS' EQUITY		
Preferred stock, $.01 par value; 1,000,000 shares authorized; nil shares issued and outstanding at June 30, 2018 and December 31, 2017	-	-
Common stock, $.001 par value; 250,000,000 shares authorized; 176,919,778 and 175,741,970 shares issued at June 30, 2018 and December 31, 2017, respectively; 166,611,691 and 165,433,883 shares outstanding at June 30, 2018 and December 31, 2017, respectively	177	176
Additional paid-in capital	63,583	63,363
Accumulated deficit	(54,705)	(52,329)
Accumulated other comprehensive loss	(145)	(58)
Treasury stock, at cost, 10,308,087 shares at June 30, 2018 and December 31, 2017	(2,000)	(2,000)
Total stockholders’ equity	6,910	9,152
	$50,478	$56,778

See Note B, Variable Interest Entities, for additional variable interest entity disclosures

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

Vaso Corporation and Subsidiaries

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

	Three months ended		Six months ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Revenues				
Managed IT systems and services	$10,704	$10,811	$22,117	$20,611
Professional sales services	6,803	6,005	12,014	11,876
Equipment sales and services	911	1,037	1,824	1,740
Total revenues	18,418	17,853	35,955	34,227
Cost of revenues				
Cost of managed IT systems and services	6,229	6,437	12,728	12,215
Cost of professional sales services	1,380	1,298	2,438	2,560
Cost of equipment sales and services	372	320	731	584
Total cost of revenues	7,981	8,055	15,897	15,359
Gross profit	10,437	9,798	20,058	18,868
Operating expenses				
Selling, general and administrative	10,448	10,247	21,996	20,937
Research and development	252	260	438	481
Total operating expenses	10,700	10,507	22,434	21,418
Operating loss	(263)	(709)	(2,376)	(2,550)
Other income (expense)				
Interest and financing costs	(182)	(171)	(353)	(340)
Interest and other income (expense), net	36	4	59	(8)
Gain on sale of investment in VSK	-	-	212	-
Total other income (expense), net	(146)	(167)	(82)	(348)
Loss before income taxes	(409)	(876)	(2,458)	(2,898)
Income tax expense	(37)	(111)	(57)	(220)
Net loss	(446)	(987)	(2,515)	(3,118)
Other comprehensive loss				
Foreign currency translation (loss) gain	(271)	59	(87)	91

Comprehensive loss	$(717)	$(928)	$(2,602)	$(3,027)
Loss per common share				
- basic and diluted	$(0.00)	$(0.01)	$(0.02)	$(0.02)
Weighted average common shares outstanding				
- basic and diluted	164,720	161,600	164,310	161,060

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

Vaso Corporation and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands)

	Common Stock		Treasury Stock		Additional	Accumulated	Accumulated Other Comprehensive	Total Stockholders'
	Shares	Amount	Shares	Amount	Paid-in-Capital	Deficit	Income (Loss)	Equity
Balance at January 1, 2017	173,812	$174	(10,308)	$(2,000)	$62,856	$(47,790)	$(329)	$12,911
Share-based compensation	1,930	2	-	-	512	-	-	514
Shares not issued for employee tax liability	-	-	-	-	(5)	-	-	(5)
Foreign currency translation gain	-	-	-	-	-	-	271	271
Net loss	-	-	-	-	-	(4,539)	-	(4,539)
Balance at December 31, 2017	175,742	$176	(10,308)	$(2,000)	$63,363	$(52,329)	$(58)	$9,152
Share-based compensation	1,178	1	-	-	221	-	-	222
Adoption of new accounting standard (*)	-	-	-	-	-	139	-	139
Shares not issued for employee tax liability	-	-	-	-	(1)	-	-	(1)
Foreign currency translation loss	-	-	-	-	-	-	(87)	(87)
Net loss	-	-	-	-	-	(2,515)	-	(2,515)
Balance at June 30, 2018 (unaudited)	176,920	$177	(10,308)	$(2,000)	$63,583	$(54,705)	$(145)	$6,910

(*) Accounting Standards Codification Topic 606, Revenue from Contracts with Customers

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

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Vaso Corporation and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(in thousands)

	Six months ended	
	June 30,	
	2018	2017
Cash flows from operating activities		
Net loss	$(2,515)	$(3,118)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities		
Depreciation and amortization	1,202	1,170
Deferred income taxes	-	192
Loss from interest in joint venture	9	59
Gain on sale of investment in VSK	(212)	-
Provision for doubtful accounts and commission adjustments	157	65
Amortization of debt issue costs	16	16
Share-based compensation	222	317
Changes in operating assets and liabilities:		
Accounts and other receivables	2,125	3,865
Receivables due from related parties	-	(116)
Inventories, net	383	(395)
Deferred commission expense	434	(629)
Prepaid expenses and other current assets	15	(36)
Other assets, net	514	621
Accounts payable	(230)	(586)
Accrued commissions	(671)	(814)
Accrued expenses and other liabilities	(733)	(479)
Sales tax payable	127	(5)
Deferred revenue	(2,873)	1,288
Deferred tax liability	12	84
Other long-term liabilities	(138)	(124)
Net cash (used in) provided by operating activities	(2,156)	1,375
Cash flows from investing activities		
Purchases of equipment and software	(1,075)	(1,323)
Proceeds from sale of investment in VSK	311	-
Net cash used in investing activities	(764)	(1,323)

Cash flows from financing activities		
Net borrowings (repayments) on revolving line of credit	896	(426)
Payroll taxes paid by withholding shares	(1)	(2)
Repayment of notes payable and capital lease obligations	(61)	(202)
Net cash provided by (used in) financing activities	834	(630)
Effect of exchange rate differences on cash and cash equivalents	4	8
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,082)	(570)
Cash and cash equivalents - beginning of period	5,245	7,087
Cash and cash equivalents - end of period	$3,163	$6,517
SUPPLEMENTAL DISCLOSURE OF CASH INFORMATION		
Interest paid	$324	$319
Income taxes paid	$60	$30
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Inventories transferred to property and equipment, net	$-	$1

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

Vaso Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

NOTE A - ORGANIZATION AND PLAN OF OPERATIONS

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

Overview

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

IT segment, operating through a wholly-owned subsidiary VasoTechnology, Inc., primarily focuses on healthcare IT and managed network technology services;

Professional sales service segment, operating through a wholly-owned subsidiary Vaso Diagnostics, Inc. d/b/a VasoHealthcare, primarily focuses on the sale of healthcare capital equipment for General Electric Healthcare (“GEHC”) into the healthcare provider middle market; and

Equipment segment, operating through a wholly-owned subsidiary VasoMedical, Inc., primarily focuses on the design, manufacture, sale and service of the Company's proprietary medical devices.

VasoTechnology

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

Managed diagnostic imaging applications (national channel partner of GEHC Digital);

Managed network infrastructure (routers, switches and other core equipment);

Managed network transport (FCC licensed carrier reselling 175+ facility partners);

Managed security services.

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

VasoHealthcare

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

VasoHealthcare's current offerings consist of:

GEHC diagnostic imaging capital equipment;

GEHC service agreements for the above equipment;

GEHC and third party financial services.

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Vaso Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

VasoHealthcare has built a team of over 80 highly experienced sales professionals who utilize proprietary sales management and analytic tools to manage the complete sales process and to increase market penetration.

VasoMedical

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

Biox™ series Holter monitors and ambulatory blood pressure recorders;

ARCS® series analysis, reporting and communication software for physiological signals such as ECG and blood pressure;

MobiCare™ multi-parameter wireless vital-sign monitoring system;

EECP® therapy system for non-invasive, outpatient treatment of ischemic heart disease.

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

NOTE B – INTERIM STATEMENT PRESENTATION

Basis of Presentation and Use of Estimates

The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and pursuant to the accounting and disclosure rules and regulations of the Securities and Exchange Commission (the "SEC"). Certain information and disclosures normally included in the financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations. Accordingly, these condensed consolidated financial statements should be read in connection with the audited consolidated financial statements and related notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017, as filed with the SEC on April 2, 2018.

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

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

Liquidity and Capital Resources

At June 30, 2018 the Company had cash and cash equivalents of $3,163,000, and negative working capital, excluding deferred commission expense and deferred revenue which are non-cash items, of $4,879,000. Historically the Company has financed its operations from cash provided from operating activities and borrowings under its lines of credit. For the six months ended June 30, 2018, the Company had a net loss of $2,515,000 and used cash in operations of $2,156,000. At June 30, 2018 the Company had outstanding borrowings under its lines of credit of approximately $4.3 million with availability of approximately $1.7 million. These lines mature on September 30, 2018. It is the management's intention to renew the lines of credit, and it is currently in negotiation with the lending bank for the renewal. The Company has had a history of renewing these lines of credit upon maturity; therefore, management believes that the lines of credit will be renewed. Additionally, the Company has a conditional commitment to extend $3.6 million of the MedTech Notes for one year through May 29, 2020 (See Note N). The Company expects to maintain sufficient liquidity through its cash on hand, availability of funds under its lines of credit, and internally generated funds to meet its obligations through at least one year from the date of filing of this Form 10-Q.

Vaso Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

Significant Accounting Policies and Recent Accounting Pronouncements

Recently Adopted Accounting Pronouncements

Effective January 1, 2018, the Company adopted Accounting Standards Codification (“ASC”) Topic 606, Revenue from Contracts with Customers. See Note C for further details.

Recently Issued Accounting Pronouncements

In February 2016, The Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-02, Leases (Topic 842). 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. In July 2018, The FASB issued ASU 2018-11, Leases (Topic 842) - Targeted Improvements, which provides an additional and optional transition approach by allowing entities to initially apply the new leases standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. This new standard would be effective for the Company beginning January 1, 2019 with early adoption permitted. The Company is still evaluating the impact adoption of this standard will have on its Consolidated Financial Statements.

In January 2017, the FASB issued ASU 2017-04, Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, 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, the Company does not expect the adoption of this standard to have a material effect on its Consolidated Financial Statements.

Variable Interest Entities

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

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

	(in thousands)	
	As of June 30, 2018	As of December 31, 2017

	(unaudited)	
Cash and cash equivalents	$39	$41
Total assets	$1,713	$1,599
Total liabilities	$1,926	$1,745

	(in thousands)			
	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Total net revenue	$513	$420	$919	$731
Net loss	$(69)	$(501)	$(68)	$(536)

Reclassifications

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

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Vaso Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

NOTE C – REVENUE RECOGNITION

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). Under the standard, revenue is recognized when a customer obtains control of promised goods or services in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. ASU 2014-09 replaced most existing revenue recognition guidance in U.S. GAAP. The new standard introduces a five-step process to be followed in determining the amount and timing of revenue recognition. It also provides guidance on accounting for costs incurred to obtain or fulfill contracts with customers, and establishes disclosure requirements which are more extensive than those required under prior U.S. GAAP. Generally, we recognize revenue under Topic 606 for each of our performance obligations either over time (generally, the transfer of a service) or at a point in time (generally, the transfer of a good) as follows:

VasoTechnology

Recurring managed network and voice services provided by NetWolves are recognized as provided on a monthly basis ("over time"). Non-recurring charges related to the provision of such services are recognized in the period provided ("point in time"). In the IT VAR business, software system installations are recognized upon verification of installation and expiration of an acceptance period ("point in time"). Monthly post-implementation customer support provided under such installations as well as software solutions offered under a monthly Software as a Service ("SaaS") fee basis are recognized monthly over the contract term ("over time").

VasoHealthcare

Commission revenue is recognized when the underlying equipment has been delivered by GEHC and accepted at the customer site in accordance with the terms of the specific sales agreement ("point in time").

VasoMedical

In the United States, we recognized revenue from the sale of our medical equipment in the period in which we deliver the product to the customer ("point in time"). 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 in both domestic and international markets ("point in time"). The Company also recognizes revenue from the maintenance of EECP® systems either on a time and material as-billed basis ("point in time") or through the sale of a service contract, where revenue is recognized ratably over the contract term ("over time").

Vaso Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

Impact of Adoption

Effective January 1, 2018, the Company adopted the requirements of Topic 606 using the modified retrospective method, which provided that the cumulative effect from prior periods upon applying the new guidance was recognized in our consolidated balance sheets as of the date of adoption, including an adjustment to retained earnings, and that prior periods are not retrospectively adjusted. The Company elected to apply the modified retrospective method only to contracts that were not completed at January 1, 2018. A summary and discussion of such cumulative effect adjustment and the impact on current period financial statements of adopting Topic 606 is as follows:

	(in thousands)			(in thousands)		
	Three months ended June 30, 2018 (unaudited)			Six months ended June 30, 2018 (unaudited)		
	prior U.S. GAAP	Topic 606 impact	as reported	prior U.S. GAAP	Topic 606 impact	as reported
STATEMENT OF OPERATIONS						
Revenues						
Professional sales services	$6,698	$105	$6,803	$11,853	$161	$12,014
Total revenues	18,313	105	18,418	35,794	161	35,955
Gross Profit	10,332	105	10,437	19,897	161	20,058
Operating expenses						
Selling, general and administrative	10,477	(29)	10,448	22,082	(86)	21,996
Operating loss	$(397)	$134	$(263)	$(2,623)	$247	$(2,376)

	(in thousands)		
	As of June 30, 2018 (unaudited)		
	prior U.S. GAAP	Topic 606 impact	as reported
ASSETS			

Accounts and other receivables, net	$10,532	$406	$10,938
Deferred commission expense	$3,251	$73	$3,324
Other assets, net	$2,700	$152	$2,852
LIABILITIES AND STOCKHOLDERS' EQUITY			
Deferred revenue - current portion	$13,345	$199	$13,544
Deferred revenue - long term	$6,603	$46	$6,649
Accumulated deficit	$(55,091)	$386	$(54,705)

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Vaso Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

Disaggregation of Revenue

The following tables present revenues disaggregated by our business operations and timing of revenue recognition:

(in thousands)

	Three Months Ended June 30, 2018 (unaudited)				Three Months Ended June 30, 2017 (unaudited)			
	IT segment	Professional sales service segment	Equipment segment	Total	IT segment	Professional sales service segment	Equipment segment	Total
Network services	$10,061	-	-	$10,061	$9,763	-	-	$9,763
Software sales and support	643	-	-	643	1,048	-	-	1,048
Commissions	-	6,803	-	6,803	-	6,005	-	6,005
Medical equipment sales	-	-	645	645	-	-	766	766
Medical equipment service	-	-	266	266	-	-	271	271
	$10,704	$6,803	$911	$18,418	$10,811	$6,005	$1,037	$17,853

	Six Months Ended June 30, 2018 (unaudited)				Six Months Ended June 30, 2017 (unaudited)			
	IT segment	Professional sales service segment	Equipment segment	Total	IT segment	Professional sales service segment	Equipment segment	Total
Network services	$20,272	-	-	$20,272	$19,357	-	-	$19,357
Software sales and support	1,845	-	-	1,845	1,254	-	-	1,254
Commissions	-	12,014	-	12,014	-	11,876	-	11,876
Medical equipment sales	-	-	1,276	1,276	-	-	1,189	1,189
Medical equipment service	-	-	548	548	-	-	551	551
	$22,117	$12,014	$1,824	$35,955	$20,611	$11,876	$1,740	$34,227

	Three Months Ended June 30, 2018 (unaudited)				Three Months Ended June 30, 2017 (unaudited)			
	IT segment	Professional sales service segment	Equipment segment	Total	IT segment	Professional sales service segment	Equipment segment	Total
Revenue recognized over time	$9,665	$-	$169	$9,834	$9,353	$-	$175	$9,528
Revenue recognized at a point in time	1,039	6,803	742	8,584	1,458	6,005	862	8,325
	$10,704	$6,803	$911	$18,418	$10,811	$6,005	$1,037	$17,853

	Six Months Ended June 30, 2018 (unaudited)				Six Months Ended June 30, 2017 (unaudited)			
	IT segment	Professional sales service segment	Equipment segment	Total	IT segment	Professional sales service segment	Equipment segment	Total
Revenue recognized over time	$19,755	$-	$342	$20,097	$18,522	$-	$364	$18,886
Revenue recognized at a point in time	2,362	12,014	1,482	15,858	2,089	11,876	1,376	15,341
	$22,117	$12,014	$1,824	$35,955	$20,611	$11,876	$1,740	$34,227

Vaso Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

Transaction Price Allocated to Remaining Performance Obligations

As of June 30, 2018, the aggregate amount of transaction price allocated to performance obligations that are unsatisfied (or partially unsatisfied) for executed contracts approximates $85.8 million, of which we expect to recognize revenue as follows:

	(in thousands) Fiscal years of revenue recognition			
	remainder of 2018	2019	2020	Thereafter
Unfulfilled performance obligations	$30,442	$29,575	$14,014	$11,783

Contract Liabilities

Contract liabilities arise in our IT VAR, VasoHealthcare, and VasoMedical businesses. In our IT VAR business, payment arrangements with clients typically include an initial payment due upon contract signing and milestone-based payments based upon product delivery and go-live, as well as post go-live monthly payments for subscription and support fees. Customer payments received, or receivables recorded, in advance of go-live and customer acceptance, where applicable, are deferred as contract liabilities. Such amounts aggregated approximately $511,000 and $371,000 at June 30, 2018 and December 31, 2017, respectively, and are included in accrued expenses and other liabilities in our condensed consolidated balance sheets.

In our VasoHealthcare business, we bill amounts for certain milestones in advance of customer acceptance of the equipment. Such amounts aggregated approximately $19,275,000 and $22,126,000 at June 30, 2018 and December 31, 2017, respectively, and are classified in our condensed consolidated balance sheets into current or long-term deferred revenue. In addition, we record a contract liability for amounts expected to be repaid to GEHC due to customer order reductions. Such amounts aggregated approximately $1,662,000 and $1,143,000 at June 30, 2018 and December 31, 2017, respectively, and are included in accrued expenses and other liabilities in our condensed consolidated balance sheets.

In our VasoMedical business, we bill amounts for post-delivery services and varying duration service contracts in advance of performance. Such amounts aggregated approximately $918,000 and $941,000 at June 30, 2018 and December 31, 2017, respectively, and are classified in our condensed consolidated balance sheets as either current or long-term deferred revenue.

During the three and six months ended June 30, 2018, we recognized approximately $2.9 million and $4.5 million of revenues that were included in our contract liability balance at the beginning of such periods.

Costs to Obtain or Fulfill a Contract

Topic 606 requires that incremental costs of obtaining a contract are recognized as an asset and amortized to expense in a pattern that matches the timing of the revenue recognition of the related contract. We have determined the only significant incremental costs incurred to obtain contracts with customers within the scope of Topic 606 are certain sales commissions paid to associates. In addition, the Company elected the practical expedient to recognize the incremental costs of obtaining a contract when incurred for contracts where the amortization period for the asset the Company would otherwise have recognized is one year or less.

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Vaso Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

Under prior U.S. GAAP, we recognized sales commissions in our equipment segment as incurred. Under Topic 606, sales commissions applicable to service contracts exceeding one year have been capitalized and amortized ratably over the term of the contract. In our IT VAR business, all commissions paid in advance of go-live were, under prior U.S. GAAP, capitalized as deferred commission expense and charged to expense at go-live or customer acceptance, as applicable. Under Topic 606, IT VAR commissions allocable to multi-year subscription contracts or multi-year post-contract support performance obligations are amortized to expense ratably over the terms of the multi-year periods. IT VAR commissions allocable to other elements continue to be charged to expense at go-live or customer acceptance, as was previously done. At the date of adoption of Topic 606, we recorded an asset, and related adjustment to retained earnings, of approximately $139,000 in our condensed consolidated balance sheets for the amount of unamortized sales commissions for prior periods, as calculated under the new guidance. The impact to our financial statements of adopting Topic 606, as it relates to costs to obtain contracts, was a reduction in commission expense of approximately $29,000 and $86,000 for the three and six months ended June 30, 2108, respectively, an increase in deferred commission expense of approximately $73,000, and an increase in long term deferred commission expense (recorded in other assets) of approximately $152,000 (inclusive of the beginning balance adjustment of $139,000).

In our professional sales services segment, under both prior U.S. GAAP and Topic 606, commissions paid to our sales force are deferred until the underlying equipment is accepted by the customer.

At June 30, 2018, our condensed consolidated balance sheet includes approximately $5,012,000 in capitalized sales commissions to be expensed in future periods, of which $3,324,000 is recorded in deferred commission expense and $1,688,000, representing the long term portion, is included in other assets.

Significant Judgments when Applying Topic 606

Contract transaction price is allocated to performance obligations using estimated stand-alone selling price. Judgment is required in estimating stand-alone selling price for each distinct performance obligation. We determine stand-alone selling price maximizing observable inputs such as stand-alone sales when they exist or substantive renewal price charged to clients. In instances where stand-alone selling price is not observable, we utilize an estimate of stand-alone selling price based on historical pricing and industry practices.

Certain revenue we record in our professional sales service segment contains an estimate for variable consideration. Due to the tiered structure of our commission rate, which increases as annual targets are achieved, under Topic 606 we record revenue and deferred revenue at the rate we expect to be achieved by year end. Under prior U.S. GAAP, we recognized revenue at the rate achieved at the applicable reporting date. We base our estimate of variable consideration on historical results of previous years' achievement under the GEHC agreement. Such estimate will be reviewed each quarter and adjusted as applicable. At June 30, 2018, the Company recorded approximately $406,000 in additional accounts and other receivables, net; $245,000 in additional combined short term and long term deferred revenue; and, for the three and six months ended June 30, 2018, $105,000 and $161,000, respectively, in additional commission revenue resulting from our estimate of variable consideration. For both the three and six months ended June 30, 2018, the Company recognized a $226,000 reduction in revenue associated with revisions to variable consideration for performance obligations completed in the three months ended March 31, 2018.

NOTE D – SEGMENT REPORTING AND CONCENTRATIONS

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

IT segment, operating through a wholly-owned subsidiary VasoTechnology, Inc., primarily focuses on healthcare IT and managed network technology services;

Professional sales service segment, operating through a wholly-owned subsidiary Vaso Diagnostics, Inc. d/b/a VasoHealthcare, primarily focuses on the sale of healthcare capital equipment for GEHC into the healthcare provider middle market; and

Equipment segment, operating through a wholly-owned subsidiary VasoMedical, Inc., primarily focuses on the design, manufacture, sale and service of proprietary medical devices.

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

Vaso Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

	(in thousands)			
	Three months ended		Six months ended	
	June 30,		June 30,	
	2018	2017	2018	2017
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenues from external customers				
IT	$10,704	$10,811	$22,117	$20,611
Professional sales service	6,803	6,005	12,014	11,876
Equipment	911	1,037	1,824	1,740
Total revenues	$18,418	$17,853	$35,955	$34,227
Gross Profit				
IT	$4,475	$4,374	$9,389	$8,396
Professional sales service	5,423	4,707	9,576	9,316
Equipment	539	717	1,093	1,156
Total gross profit	$10,437	$9,798	$20,058	$18,868
Operating (loss) income				
IT	$(845)	$(712)	$(1,280)	$(1,630)
Professional sales service	1,164	403	110	318
Equipment	(339)	(127)	(566)	(532)
Corporate	(243)	(273)	(640)	