COSTAR TECHNOLOGIES, INC.
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR’S REVIEW REPORT

September 30, 2016

COSTAR TECHNOLOGIES, INC. AND SUBSIDIARIES

CONTENTS

RSM

Independent Auditor's Review Report

RSM US LLP

To the Audit Committee
Costar Technologies, Inc.
Coppell, Texas

Report on the Financial Statements
We have reviewed the accompanying consolidated balance sheet of Costar Technologies, Inc. and subsidiaries as of September 30, 2016, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the three-month and nine-month periods ending September 30, 2016 and 2015.

Management's Responsibility
The Company's management is responsible for the preparation and fair presentation of the interim financial information in accordance with accounting principles generally accepted in the United States of America; this responsibility includes the design, implementation, and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of interim financial information in accordance with generally accepted accounting principles.

Auditor's Responsibility
Our responsibility is to conduct our review in accordance with auditing standards generally accepted in the United States of America applicable to reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial information. Accordingly, we do not express such an opinion.

Conclusion
Based on our review, we are not aware of any material modifications that should be made to the accompanying interim financial information for it to be in accordance with accounting principles generally accepted in the United States of America.

Report on the Balance Sheet as of December 31, 2015
We previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet as of December 31, 2015, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the year then ended (not presented herein); and we have expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated March 30, 2016. In our opinion, the accompanying consolidated balance sheet of Costar Technologies, Inc. and subsidiaries as of December 31, 2015, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

RSM US LLP

Dallas, Texas
November 7, 2016

COSTAR TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(AMOUNTS SHOWN IN THOUSANDS)

	September 30, 2016 (Reviewed)	December 31, 2015 (Audited)
ASSETS		
Current assets		
Cash	$	$
Accounts receivable, less allowance for doubtful accounts of $93 and $78 in 2016 and 2015, respectively	5,690	5,509
Inventories, net of reserve for obsolescence of $1,012 and $1,000 in 2016 and 2015, respectively	8,868	7,991
Prepaid expenses	601	644
Total current assets	15,159	14,144
Non-current assets		
Property and equipment, net	340	398
Deferred financing costs, net		22
Deferred tax asset, net	7,312	7,312
Trade names, net	2,049	2,227
Distribution agreement, net	716	771
Customer relationships, net	618	695
Covenant not to compete, net	11	14
Goodwill	2,063	2,063
Other non-current assets	109	
Total assets	$ 28,377	$ 27,646
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 2,114	$ 2,995
Accrued expenses and other	2,347	1,017
Line of credit	1,035	1,189
Short-term debt	593	591
Total current liabilities	6,089	5,792
Long-Term liabilities		
Long-term debt	145	590
Total long-term liabilities	145	590
Total liabilities	6,234	6,382
Commitments and Contingencies		
Stockholders' Equity		
Preferred stock		
Common stock	3	3
Additional paid in capital	156,354	156,216
Accumulated deficit	(129,693)	(130,434)
Less common stock held in treasury, at cost	(4,521)	(4,521)
Total stockholders' equity	22,143	21,264
Total liabilities and stockholders' equity	$ 28,377	$ 27,646

See independent auditor's report and notes to consolidated financial statements.

COSTAR TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
(AMOUNTS SHOWN IN THOUSANDS, EXCEPT NET INCOME PER SHARE)

	Three Months Ended Sepember 30, 2016	2015	Nine Months Ended September 30, 2016	2015
	(Reviewed)	(Reviewed)	(Reviewed)	(Reviewed)
Net revenues	$ 9,884	$ 7,826	$ 29,096	$ 25,225
Cost of revenues	5,965	4,839	17,882	15,311
Gross profit	3,919	2,987	11,214	9,914
Selling, general and administrative expenses	2,813	2,094	8,082	6,790
Engineering and development expense	585	708	1,814	2,154
	3,398	2,802	9,896	8,944
Income from operations	521	185	1,318	970
Other income (expenses)				
Interest expense	(23)	(35)	(94)	(122)
Other income and expense, net	1		4	1
Total other expenses, net	(22)	(35)	(90)	(121)
Income before taxes	499	150	1,228	849
Income tax provision	197	82	487	355
Net income	$ 302	$ 68	$ 741	$ 494
Net income per share:				
Basic	$ 0.20	$ 0.05	$ 0.50	$ 0.34
Diluted	$ 0.19	$ 0.04	$ 0.48	$ 0.32
Weighted average shares outstanding				
Basic	1,498	1,469	1,492	1,469
Diluted	1,550	1,525	1,542	1,525

See independent auditor's report and notes to consolidated financial statements.

COSTAR TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(AMOUNTS SHOWN IN THOUSANDS)

For the Nine Months Ended September 30, 2016 and 2015

	Common Stock		Additional Paid - In	Treasury Stock		Accumulated	Total Stockholders'
	Shares	Amount	Capital	Shares	Amount	Deficit	Equity
Balances at December 31, 2014 (audited)	1,692	$ 3	$ 156,073	226	$ (4,521)	$ (130,908)	$ 20,647
Net income						494	494
Exercise of stock options	5		6				6
Stock based compensation			105				105
Balances at September 30, 2015 (reviewed)	1,697	$ 3	$ 156,184	226	$ (4,521)	$ (130,414)	$ 21,252
Balances at December 31, 2015 (audited)	1,711	$ 3	$ 156,216	226	$ (4,521)	$ (130,434)	$ 21,264
Net income						741	741
Stock based compensation	13		138				138
Balances at September 30, 2016 (reviewed)	1,724	$ 3	$ 156,354	226	$ (4,521)	$ (129,693)	$ 22,143

See independent auditor's report and notes to consolidated financial statements.

COSTAR TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(AMOUNTS SHOWN IN THOUSANDS)

For the Nine Months Ended September 30,	**2016**	**2015**
	(Reviewed)	**(Reviewed)**
Cash flows from operating activities		
Net income	$ 741	$ 494
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock based compensation	138	105
Depreciation and amortization	409	390
Amortization of deferred financing costs	29	43
Provision for doubtful accounts	15	(10)
Provision for obsolete inventory	12	724
Changes in operating assets and liabilities		
Accounts receivable, net	(196)	2,407
Inventories, net	(889)	330
Prepaid expenses	43	(173)
Other non-current assets	(109)	
Accounts payable	(881)	(2,034)
Accrued expenses and other	1,330	(736)
Net cash provided by operating activities	642	1,540
Cash flows from investing activities		
Purchase of property and equipment	(38)	(80)
Net cash used in investing activities	(38)	(80)
Cash flows from financing activities		
Contingent purchase price		(128)
Proceeds (repayment) on line of credit, net	(154)	30
Repayment of term debt	(450)	(1,350)
Exercise of stock options		6
Net cash used in financing activities	(604)	(1,442)
Net change in cash		18
Cash, beginning of period		
Cash, end of period	$	$ 18
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	$ 65	$ 80
Cash paid during the period for taxes	$ 87	$ 208

1. Nature of operations

Costar Technologies, Inc. ("Costar Technologies") was incorporated in the State of Delaware in February 1997 under the name "Fairmarket, Inc.". Costar Technologies, and its wholly owned subsidiaries, Costar Video Systems, LLC ("Costar"), LQ Corporation ("LQ"), and CohuHD Costar, LLC ("CohuHD Costar") (collectively the "Company"), develops, designs and distributes a range of security solution products such as surveillance cameras, lenses, digital video recorders and high speed domes as well as industrial vision products to observe repetitive production and assembly lines, thereby increasing efficiency by detecting faults in the production process. CohuHD Costar is a leading provider of video cameras and related products, specializing in IP video solutions for traffic monitoring, security, surveillance and military applications; and accessories such as cables, camera mounts, lenses and data storage devices.

2. Summary of significant accounting policies

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"), except that certain information and notes have been condensed or omitted, and include the accounts of Costar Technologies and its wholly owned subsidiaries. All material intercompany transactions have been eliminated in consolidation. These consolidated financial statements should be read in conjunction with our consolidated financial statements for the year ended December 31, 2015.

These consolidated financial statements were approved by management and available for issuance on November 7, 2016. Subsequent events have been evaluated through this date.

Commitments and Contingencies

The Company records and/or discloses commitments and contingencies in accordance with ASC 450, Contingencies. ASC 450 applies to an existing condition, situation, or set of circumstances involving uncertainty as to possible loss that will ultimately be resolved when one or more future events occur or fail to occur. At this time there are no matters that are expected to have an adverse, material effect on the consolidated financial statements (See Note 12).

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Company considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents**.** As of September 30, 2016 and December 31, 2015, the Company had no cash equivalents.

(AMOUNTS SHOWN IN THOUSANDS)

2. Summary of significant accounting policies (continued)

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are uncollateralized customer obligations recorded at net realizable values. The Company maintains an allowance for estimated losses resulting from the failure of customers to make required payments and for anticipated returns. The allowance is based on specific facts and circumstances surrounding individual customers as well as historical experience. Provisions for losses on receivables and returns are charged to income to maintain the allowance at a level considered adequate to cover losses and future returns. Receivables are charged off against the reserve when they are deemed uncollectible and returns are charged off against the reserve when the actual returns are incurred.

Inventories

Inventories are recorded on the first in first out basis and are stated at the lower of average cost, standard cost, or market. A provision is made to reduce excess or obsolete inventories to their net realizable value. The reserve for inventory obsolescence was $1,012 and $1,000 as of September 30, 2016 and December 31, 2015, respectively. Inventories at September 30, 2016 and December 31, 2015 were comprised of the following:

	September 30, 2016	December 31, 2015
Parts, components, and materials	$ 2,319	$ 1,982
Work-in-process	611	1,064
Finished products	5,938	4,945
Total Inventory	$ 8,868	$ 7,991

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization is computed using the straight-line method over estimated useful lives of 3-5 years as follows:

Computer hardware and software	3 years
Furniture and fixtures	5 years
Leasehold improvements	Shorter of lease term or asset useful life

Long-Lived Assets

In accordance with GAAP, intangible assets with indefinite lives are not amortized, but instead tested for impairment. Intangible assets are reviewed for impairment at least annually or whenever events or changes in circumstances indicate the carrying value of the assets may not be recoverable. Impairment losses are recognized if the fair value of the intangible asset is less than its carrying value.

Property and equipment and intangible assets with finite lives are amortized over their estimated useful lives. These assets are reviewed for impairment, at the asset group level, whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. A loss is recognized in the consolidated statements of income if it is determined that an impairment exists based on expected future undiscounted cash flows. The amount of the impairment is the excess of the carrying amount of the impaired asset over its fair value.

2. Summary of significant accounting policies (continued)

Goodwill

Goodwill is tested annually for impairment, or sooner when circumstances indicate an impairment may exist. The Company has elected to first perform a qualitative assessment, based on the entity's events and circumstances, to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The results of this qualitative assessment determine whether it is necessary to perform the two-step impairment test. For the year ending December 31, 2015 the Company performed step one of the impairment test and estimated the fair value of CohuHD Costar at December 31, 2015, noting it exceeded its carrying value. Accordingly, step two of the test was not required to be performed and no goodwill impairment was recognized at December 31, 2015. No indicators warranting reevaluation arose during the nine months ended September 30, 2016.

Fair Value Measurements

The Company follows the guidance from FASB ASC 820, Fair Value Measurements and Disclosures, which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. This accounting standard does not require any new fair value measurements. The Company applies fair value accounting for all financial assets and liabilities and non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. The Company defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities, which are required to be recorded at fair value, the Company considers the principal or most advantageous market in which the Company would transact and the market-based risk measurements or assumptions that market participants would use in pricing the asset or liability, such as inherent risk, transfer restrictions and credit risk.

Revenue Recognition

The Company ships and invoices its sales in accordance with signed purchase orders. The Company only recognizes revenue when it is realized and earned when the following criteria are met: there is evidence of an agreement; delivery has occurred; the selling price is fixed or determinable; and collectability is reasonably assured. The Company considers criteria to have been met when goods are shipped in accordance with signed purchase orders. Any software imbedded in the products sold is considered incidental to the product being sold.

Recent Accounting Pronouncements

In August 2016 the Financial Accounting Standards Boards (FASB) issued Accounting Standards Update No. 2016-15 (ASU 2016-15): Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, a consensus of the Emerging Issues Task Force. ASU 2016-15 provides guidance on how certain transactions are classified in the statement of cash flows. ASU 2016-15 clarifies the classification of debt prepayment or debt extinguishment costs, settlement of zero-coupon debt instruments, contingent consideration payments subsequent to a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate and bank-owned life insurance policies, distributions received from equity method investments, beneficial interests in securitization transactions and separately identifiable cash flows and application of the predominance principle in the statement of cash flows. ASU 2016-15 requires retrospective application and is effective for financial statements issued for fiscal years beginning after December 15, 2018 and interim periods within fiscal years beginning after December 15, 2019, with early adoption permitted. The Company is currently evaluating the impact of the pending adoption of ASU 2016-15 on the consolidated financial statements.

2. Summary of significant accounting policies (continued)

Recent Accounting Pronouncements (continued)

In May 2016 the FASB issued Accounting Standards Update No. 2016-12 (ASU 2016-12): Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedients. In April 2016 the FASB issued Accounting Standards Update No. 2016-10 (ASU 2016-10): Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing. In March 2016 the FASB issued Accounting Standards Update No. 2016-08 (ASU 2016-08): Revenue from Contracts with Customers: Principal versus Agent Considerations. These amendments provide additional clarification and implementation guidance on the previously issued Accounting Standards Update No. 2014-09: Revenue from Contracts with Customers. ASU 2016-12 provides clarifying guidance on assessing collectability, noncash consideration, presentation of sales taxes and transition. ASU 2016-10 provides additional guidance on materiality of performance obligations, evaluating distinct performance obligations, treatment of shipping and handling costs and determining whether an entity's promise to grant a license provides a customer with either a right to use or access an entity's intellectual property. ASU 2016-08 clarifies how an entity should identify the specified good or service for the principal versus agent evaluation and how it should apply the control principle to certain types of arrangements. ASU 2016-10 and ASU 2016-08 are effective in connection with ASU 2014-09.

In March 2016 the FASB issued Accounting Standards Update No. 2016-09 (ASU 2016-09): Compensation – Stock Compensation: Improvements to Employee Share-Based Payment Accounting, effective for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. ASU 2016-09 simplifies several aspects of the stock compensation guidance including income tax consequences, classification of awards as either equity or liabilities, classification on the statement of cash flows, expected term of awards and the intrinsic value election for liability-classified awards. The amendments in ASU 2016-09 are to be applied differently upon adoption with certain amendments being applied prospectively, retrospectively and under a modified retrospective transition method. The Company is currently evaluating the effects the adoption of ASU 2016-09 will have on the consolidated financial statements.

In February 2016 the FASB issued Accounting Standards Update No. 2016-02 (ASU 2016-02): Leases, effective the first quarter of 2020. ASU 2016-02 was issued in three parts: Section A, "Leases: Amendments to the FASB Accounting Standards Codification," Section B, "Conforming Amendments Related to Leases: Amendments to the FASB Accounting Standards Codification," and Section C, "Background Information and Basis for Considerations." The most significant change for lessees is the requirement under the new guidance to recognize right-of-use assets and lease liabilities for all leases not considered short-term leases. Other changes in the new guidance include: (a) defining initial direct costs to only include those incremental costs that would not have been incurred if the lease had not been entered into, (b) requiring related party leases to be accounted for based on their legally enforceable terms and conditions, (c) eliminating the additional requirements that must be applied today to leases involving real estate and (d) revising the circumstances under which the transfer contract in a sale-leaseback transaction should be accounted for as the sale of an asset by the seller-lessee and the purchase of an asset by the buyer-lessor. In addition, leases are subject to new disclosure requirements. The Company is currently evaluating the impact of the pending adoption of ASU 2016-02 on the consolidated financial statements.

In July 2015, the FASB issued Accounting Standards Update No. 2015-11 (ASU 2015-11): Simplifying the Measurement of Inventory, effective for annual and interim periods beginning after December 15, 2016. ASU 2015-11 changes the inventory measurement principle for entities using the first-in, first out (FIFO) or average cost methods. For entities utilizing one of these methods, the inventory measurement principle will change from lower of cost or market to the lower of cost and net realizable value. The Company is currently evaluating the provisions of ASU 2015-11 and assessing the impact, if any, it may have on the financial position and results of operations.

2. Summary of significant accounting policies (continued)

Recent Accounting Pronouncements (continued)

In April 2015, the FASB issued Accounting Standards Update No. 2015-03 (ASU 2015-03): Simplifying the Presentation of Debt Issuance Costs, effective for annual and interim periods beginning after December 15, 2015. ASU 2015-03 requires that all costs incurred to issue debt be presented in the balance sheet as a direct deduction from the carrying value of the debt. It is effective retrospectively for all prior periods presented in the financial statements beginning in the first quarter 2016 and is only expected to impact the presentation of the Company's consolidated balance sheet. In August 2015, the FASB issued Accounting Standards Update No. 2015-15 (ASU 2015-15): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements, effective for annual and interim periods beginning after December 15, 2015. ASU 2015-15 discusses the presentation and subsequent measurement of debt issuance costs related to line-of-credit arrangements which was not specifically addressed in ASU 2015-03. ASU 2015-15 allows for a Company to record debt issuance costs related to line-of-credit arrangements as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit agreement, regardless of whether there are any outstanding borrowings on the arrangement. The Company adopted and applied ASU 2015-03 retrospectively during the nine months ending September 30, 2016.

In May 2014, the FASB issued Accounting Standards Update 2014-09 (ASU 2014-09): Revenue from Contracts with Customers (Topic 606), to supersede nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity is expected to be entitled for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than required under existing U.S. GAAP, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each performance obligation. ASU 2014-09 is effective for the Company in the first quarter of fiscal year 2018, with early adoption permitted, using either of two methods: (a) retrospective to each prior reporting period presented with the option to elect certain practical expedients as defined within ASU 2014-09; or (b) retrospective with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application and providing certain additional disclosures as defined in ASU 2014-09. The Company has not yet selected a transition method and is currently evaluating the impact of the pending adoption of ASU 2014-09 on the consolidated financial statements.

Research and Development

Expenditures for research, development and engineering of software and hardware products, that are included in operating expenses in the consolidated statements of income, are expensed as incurred.

Stock Based Compensation (per share amounts shown in whole numbers)

The Company complies with the accounting and reporting requirements of the Accounting for Stock Based Compensation guidelines which require companies to record compensation expense for share-based awards issued to employees in exchange for services provided. The amount of the compensation expense is based on the estimated fair value of the awards on their grant dates and is generally recognized over the applicable vesting period.

The fair value of stock options is determined using an option-pricing model that takes into account the stock price at the grant date, the exercise price, the expected life of the option, the volatility of the underlying stock, expected dividends, and the risk free interest rate over the expected life of the option.

(AMOUNTS SHOWN IN THOUSANDS)

2. Summary of significant accounting policies (continued)

Stock Based Compensation (per share amounts shown in whole numbers) (continued)

During the nine months ended September 30, 2016 and 2015 the Company recognized $138 and $105 in stock based compensation expense in its consolidated financial statements relating to the issuance of stock options, respectively.

The fair value of the stock options granted during the nine month periods ending September 30, 2016 and 2015 was estimated on the date of grant using the Black-Scholes valuation model based on the following assumptions:

	Nine Months Ended September 30, 2016	2015
Expected dividend yield	0.00%	0.00%
Expected stock price volatility	68.85% - 69.77%	59.51% - 63.33%
Risk-free interest rate	2.00%	2.00%
Expected life	10 years	10 years
Weighted-average fair value of options granted	$6.36	$7.70

Basic and Diluted Net Income per Share (per share amounts shown in whole numbers)

Basic income per share is computed by dividing income attributable to common shareholders by the weighted average number of common shares outstanding for the period. Diluted income per share reflects the dilution of common stock equivalents such as options to the extent the impact is dilutive. As the Company incurred net income for the three and nine month periods ended September 30, 2016 and 2015, potentially dilutive securities have been included in the diluted net income per share computations and any potentially anti-dilutive shares have been excluded and are shown below.

The following table reconciles the number of shares utilized in the net income per share calculations for the three and nine months ended September 30, 2016 and 2015:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income	$ 302	$ 68	$ 741	$ 494
Shares				
Weighted average shares outstanding - basic	1,498	1,469	1,492	1,469
Weighted average dilutive share equivalents from stock options	52	56	50	56
Weighted average shares outstanding - diluted	1,550	1,525	1,542	1,525
Net income per share - basic	$ 0.20	$ 0.05	$ 0.50	$ 0.34
Net income per share - diluted	$ 0.19	$ 0.04	$ 0.48	$ 0.32

The number of potentially dilutive shares from stock options excluded from the diluted net income per share calculation as of September 30, 2016 and 2015 was 35 and 43, respectively.

2. Summary of significant accounting policies (continued)

Income Taxes

The Company complies with GAAP which requires an asset and liability approach to financial reporting for income taxes. Deferred income tax assets and liabilities are computed for differences between the consolidated financial statement and tax basis of assets and liabilities that will result in future taxable or deductible amounts, based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred income tax assets to the amount expected to be realized.

The determination of the Company's provision for income taxes requires significant judgment, the use of estimates, and the interpretation and application of complex tax laws. Significant judgment is required in assessing the timing and amounts of deductible and taxable items and the probability of sustaining uncertain tax positions. The benefits of uncertain tax positions are recorded in the Company's consolidated financial statements only after determining a more-likely-than-not probability that the uncertain tax positions will withstand challenge, if any, from tax authorities. When facts and circumstances change, the Company reassesses these probabilities and records any changes in the consolidated financial statements as appropriate.

In accordance with GAAP, the Company is required to determine whether a tax position is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The Company files an income tax return in the U.S. federal jurisdiction, and may file income tax returns in various U.S. states and foreign jurisdictions. 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. De-recognition of a tax benefit previously recognized results in the Company recording a tax liability that increases the accumulated deficit. Generally, the Company is no longer subject to income tax examination by major taxing authorities for the years before 2012.

Operating Segments

Operating segments are defined as components of an enterprise for which separate financial information is available and evaluated regularly by the chief operating decision maker, or decision-making group, in deciding how to allocate resources and in assessing performance. The Company recognizes three reportable segments: "Costar Video Systems," "CohuHD Costar" and "Other."

3. Segment information

Our business segments offer a variety of products (See Note 1) and are managed separately as each business requires different technology and marketing strategies. Our reportable segments are Costar Video System, CohuHD Costar and Other. The Other segment encompasses the Company's costs associated with federal income taxes, company-wide financing (including interest expense), executive compensation and other corporate expenses. Financial information by reportable segment for the three and nine month periods ending September 30, 2016 and 2015 is presented on the following page.

(AMOUNTS SHOWN IN THOUSANDS)

3. Segment information (continued)

	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Revenues				
Costar Video Systems	$ 4,957	$ 4,617	$ 16,124	$ 14,898
CohuHD Costar	4,927	3,209	12,972	10,327
	9,884	7,826	29,096	25,225
Net income (loss)				
Costar Video Systems	$ 738	$ 615	$ 2,113	$ 2,073
CohuHD Costar	550	(150)	847	(110)
Other	(986)	(397)	(2,219)	(1,469)
	302	68	741	494

Total assets by business segment at September 30, 2016 and December 31, 2015 are as follows:

	September 30, 2016	December 31, 2015
Costar Video Systems	$ 9,989	$ 9,427
CohuHD Costar	11,022	10,846
Other	7,366	7,373
	28,377	27,646

4. Property and equipment

Property and equipment at September 30, 2016 and December 31, 2015, were as follows:

	2016	2015
Office furniture and equipment	$ 895	$ 915
Less accumulated depreciation	(555)	(517)
Total property and equipment, net	$ 340	$ 398

Depreciation expense for each of the three months ended September 30, 2016 and 2015 was $32 and $40 and for the nine months ended September 30, 2016 and 2015 was $96 and $76, respectively.

(AMOUNTS SHOWN IN THOUSANDS)

5. Intangible assets

The following is a summary of amortized and unamortized intangible assets at September 30, 2016 and December 31, 2015:

	September 30, 2016	
	Gross Amount	Accumulated Amortization
Amortized intangible assets		
Customer relations - Southern Imaging	$ 1,599	$ 1,599
Distribution agreement - Southern Imaging	1,468	752
Customer relations - IVS	125	102
Covenant not to compete - IVS	50	50
Trade name - CohuHD	1,657	533
Customer relationships - CohuHD	779	184
Covenant not to compete - CohuHD	20	9
Total amortized intangible assets	5,698	3,229
Unamortized intangible assets		
Trade name - Costar	800	
Trade name - IVS	125	
Goodwill - CohuHD	2,063	
Total unamortized intangible assets	2,988	
Total intangible assets	$ 8,686	$ 3,229

	December 31, 2015	
	Gross Amount	Accumulated Amortization
Amortized intangible assets		
Customer relations - Southern Imaging	$ 1,599	$ 1,599
Distribution agreement - Southern Imaging	1,468	697
Customer relations - IVS	125	87
Covenant not to compete - IVS	50	50
Trade name - CohuHD	1,657	355
Customer relationships - CohuHD	779	122
Covenant not to compete - CohuHD	20	6
Total amortized intangible assets	5,698	2,916
Unamortized intangible assets		
Trade name - Costar	800	
Trade name - IVS	125	
Goodwill - CohuHD	2,063	
Total unamortized intangible assets	2,988	
Total intangible assets	$ 8,686	$ 2,916

(AMOUNTS SHOWN IN THOUSANDS)

5. Intangible assets (continued)

The weighted average amortization period for the Company's intangible assets is 8 years. Amortizable intangible assets estimated useful lives are as follows:

Trade name	7 years
Customer relationships	6 and 10 years
Distribution agreements	20 years
Covenants not to compete	3 and 5 years

Amortization expense for the three months ended September 30, 2016 and 2015 was $105 and $106 and for the nine months ended September 30, 2016 and 2015 was $313 and $314, respectively. Future amortization expense is as follows:

Year Ending September 30,		
2017	$	417
2018		397
2019		393
2020		388
2021		327
Thereafter		547
Total future amortization expense	$	2,469

6. Lines of credit and long-term debt

Effective June 3, 2014, the Company entered into an Amended Loan and Security Agreement ("Accord") with Bank of Texas. The Accord allows for up to $7,000 in a revolving line of credit and a $3,000 term loan with maturities of June 3, 2016 and June 3, 2019, respectively. Upon expiration of the revolving line of credit under the Accord the Company entered into a Business Loan Agreement ("Agreement") with Bank of Texas for a revolving line of credit up to $3,000 subject to borrowing base requirements detailed in the Agreement. The Agreement matures on June 3, 2018. The obligations under the Accord and Agreement with Bank of Texas are secured by a lien on substantially all accounts receivable, inventory, and equipment. As of September 30, 2016, the Company was paying interest at LIBOR plus 2.9% (3.42%) for the term loan and the line of credit.

Future principal payments for the term loan are as follows:

Year Ending September 30,		
2017	$	600
2018		150
Less: deferred financing costs, net		(12)
	$	738

6. Lines of credit and long-term debt (continued)

The Accord and Agreement with Bank of Texas contains customary representations and warranties, events of default and covenants, including, among other things, covenants that restrict the ability of Costar to incur certain additional indebtedness or to issue distributions or dividends. The Company is also restricted in its mergers and acquisitions activity. The Accord and Agreement with Bank of Texas contain financial covenants calculated on a consolidated basis requiring the Company to maintain a certain Debt Service Coverage Ratio, Minimum Profitability, and a Minimum Tangible Net Worth. The Company maintains zero balance accounts, which are swept daily to the revolving line of credit. As of September 30, 2016 and December 31, 2015, $1,035 and $1,189 was owed to Bank of Texas on the revolving line of credit and $750 and $1,200 was owed to Bank of Texas on the term loan, respectively. Additional advances up to $1,965 are available under the revolving line of credit at September 30, 2016.

The Company paid approximately $125 in various fees associated with securing the Accord. The fees associated with the term loan are presented in the consolidated balance sheet as a direct deduction to the carrying value of the debt and are amortized over the life of the loan using the effective-interest method. Deferred financing costs relating to the term loan were $12 and $19 at September 30, 2016 and December 31, 2015, respectively. The fees associated with the line of credit are presented in the consolidated balance sheet as deferred financing costs and are amortized using the straight-line method over the life of the loan. Deferred financing costs relating to the line of credit were $0 and $22 at September 30, 2016 and December 31, 2015, respectively.

7. Income taxes

Total income tax expense for the three months ended September 30, 2016 and 2015 was $197 and $82 and for the nine months ended September 30, 2016 and 2015 was $487 and $355, respectively. The Company's effective tax rate of approximately 40**%** differed from the U.S. federal statutory tax rate due primarily to state taxes.

8. Stockholders' equity (shown in whole amounts)

At September 30, 2016 and December 31, 2015, the authorized capital stock of the Company consisted of (i) 10,000,000 shares of voting common stock with a par value of $0.001 per share and (ii) 10,000,000 shares of preferred stock with a par value of $0.001 per share. As of September 30, 2016 and December 31, 2015, there was no preferred stock issued and outstanding. The Company's Board has the authority to determine the voting powers, designations, preferences, privileges and restrictions of the preferred shares. As of September 30, 2016 and December 31, 2015, there were 1,497,959 and 1,484,709 shares of common stock outstanding and 1,723,725 and 1,710,475 shares of common stock issued.

9. Stock option plan (shown in whole amounts)

The Company's 2000 Stock Option and Incentive Plan (the "2000 Incentive Plan") provides for awards in the form of incentive stock options, non-qualified stock options, restricted stock awards and other forms of awards to officers, directors, employees and consultants of the Company. At September 30, 2016 and December 31, 2015, there were 119,066 and 123,282 share options issued under this plan, respectively.

The Board of Directors of the Company determines the term of each option, the option price, and the number of shares for which each option is granted and the times at which each option vests. For holders of 10% or more of the Company's outstanding common stock, incentive stock options may not be granted at less than 110% of the fair market value of the common stock at the date of grant.

(AMOUNTS SHOWN IN THOUSANDS)

9. Stock option plan (shown in whole amounts) (continued)

At the Company's annual meeting on December 16, 2014, the Company's stockholders approved and adopted the Company's 2014 Omnibus Performance Award Plan (the "Plan"). The Board adopted the Plan on November 17, 2014, subject to and effective upon its approval by stockholders. With the adoption of the Plan, no new awards will be granted under the 2000 Incentive Plan, although it will remain in effect for options that are currently outstanding in accordance with their terms. The Plan authorizes the grant of awards relating to 150,000 shares of the Company's Common Stock. At September 30, 2016 and December 31, 2015, there were 16,000 and 8,000 share options issued under this plan, respectively.

The following table summarizes information about stock options outstanding at September 30, 2016:

Options Outstanding				Options Fully Vested and Exercisable	
Range of Exercise Price Per Share	Number Outstanding	Weighted Average Remaining Contractual Life (In Years)	Weighted Average Exercise Price Per Share	Number Exercisable	Weighted Average Exercise Price Per Share
$0.725-$15.020	135,066	5.34	$5.45	125,441	$5.21

Stock option activity for the nine months ended September 30, 2016 and 2015 is as follows:

	2016		2015	
	Number of Shares	Weighted Average Exercise Price Per Share	Number of Shares	Weighted Average Exercise Price Per Share
Outstanding at beginning of year	131,282	$5.46	135,982	$5.24
Granted	8,000	$8.44	8,000	$11.01
Exercised			(5,200)	$1.13
Canceled	(4,216)	$11.21	(7,500)	$10.41
Outstanding at period end	135,066	$5.45	131,282	$5.46
Options exercisable at period end	125,441	$5.21	112,353	$5.12

9. Stock option plan (shown in whole amounts) (continued)

On October 7, 2015 the Compensation Committee of the Company's Board of Directors authorized the grant of 13,250 restricted stock awards ("2015 Awards") to certain employees pursuant to the provisions of the Plan. The 2015 Awards were granted on October 16, 2015. All of the 2015 Awards are subject to a time-vesting schedule and 75% are subject to performance conditions relating to EBITDA growth for the years ending December 31, 2015 and 2016, as stated in the 2015 Awards Agreements. The 25% of the 2015 Awards not subject to performance conditions have a fair market grant date value of approximately $30,000, with the expense recognized over the two year vesting period. Stock based compensation expense of $11,100 was recognized in the Company's financial statements in relation to the 2015 Awards during the nine month period ending September 30, 2016.

On June 1, 2016 an additional grant of 13,250 restricted stock awards ("2016 Awards") was authorized by the Compensation Committee of the Company's Board of Directors. All of the 2016 Awards are subject to a time-vesting schedule and 75% are subject to performance conditions relating to EBITDA growth for the years ending December 31, 2016 and 2017, as stated in the 2016 Awards Agreements. The 25% of the 2016 Awards not subject to performance conditions have a fair market grant date value of approximately $28,000, with the expense recognized over the two year vesting period. The 2016 Awards subject to the performance conditions have a fair market grant date value of $85,000, with the expense recognized over the two year vesting period based upon the probability of achievement. Stock based compensation expense of $42,500 was recognized in the Company's financial statements in relation to the 2016 Awards during the nine month period ending September 30, 2016.

During the nine months ended September 30, 2016 and 2015 the Company recognized approximately $138,000 and $105,000 in stock based compensation expense in its consolidated financial statements, respectively.

10. Lease agreements

On January 31, 2011 the Company entered into a new lease agreement for certain facilities that will expire in 2018. Rent expense under the agreement for the three months ended September 30, 2016 and 2015 was approximately $26 and $30 and for the nine months ended September 30, 2016 and 2015 was approximately $146 and $86, respectively.

On June 6, 2014 the Company signed a three year lease with Cohu, Inc. in Poway, CA for the CohuHD Costar business. On December 4, 2015 the Company received a notice of lease termination from Cohu, Inc. terminating the lease effective December 31, 2016. Rent expense under the agreement for the three month periods ended September 30, 2016 and 2015 was approximately $132 and $138 and for the nine month period ended September 30, 2016 and 2015 was approximately $418 and $389, respectively.

On May 20, 2016 the Company signed a seventy-seven month lease for the new CohuHD Costar facilities commencing on January 1, 2017 that will expire in 2023.

During the nine month period ending September 30, 2016 the Company made a one-time catchup adjustment to properly reflect straight line rent on the commenced leases described above. This adjustment resulted in an additional $84 of rent expense for the nine month period ending September 30, 2016.

(AMOUNTS SHOWN IN THOUSANDS)

10. Lease agreements (continued)

Future minimum annual rent payments as of September 30, 2016 are approximately as follows:

Year Ending September 30,		
2017	$	454
2018		466
2019		339
2020		349
2021		360
Thereafter		624
Total future minimum lease commitments	$	2,592

11. Risk concentrations

Concentration of Cash

The Company maintains its cash balances in financial institutions. These balances are insured by the Federal Deposit Insurance Corporation up to $250 per institution. The Company is subject to credit risk to the extent any financial institution with which it conducts business is unable to fulfill contractual obligations on its behalf. Management monitors the financial condition of such financial institutions and does not anticipate any losses from these financial institutions.

Concentration of Customers

For the nine months ended September 30, 2016 Costar Video Systems' two largest customers, Wal-Mart and Protection 1, accounted for approximately $7,906 or 27.2% of the Company's total revenue. For the nine months ended September 30, 2015 Costar Video Systems' three largest customers accounted for approximately $9,505 or 37.7% of the Company's total revenue. Amounts owed by two major customers from the Costar Video Systems operating segment accounted for $1,163 or 20.4% of the Company's outstanding accounts receivable balance as of September 30, 2016. Amounts owed by three main customer from the Costar Video Systems operating segment accounted for approximately $2,187 or 39.7% of the Company's outstanding accounts receivable balance at December 31, 2015.

Concentration of Suppliers

For the nine months ended September 30, 2016 and 2015, the Company made purchases from one main supplier of the Costar Video Systems operating segment of approximately 29.3% and 15.9%, respectively. Amounts owed to one main supplier of the Costar Video Systems operating segment accounted for 34.5% and two main suppliers accounted for 50.8% of the Company's accounts payable balance, as of September 30, 2016 and December 31, 2015, respectively.

12. Contingent liabilities

Sales Tax Liabilities

Subsequent to December 31, 2015 it was determined that Costar Video Systems had nexus in California and should have been assessing and collecting sales tax on sales into California dating back to 2013. An estimated liability of $110 was included in the Company's consolidated financial statements for the year ending December 31, 2015. The Company attempted to; (1) obtain resale or tax exemption certificates from its customers, (2) prove that a customer directly remitted sales tax to the state on the sales in question or (3) assess and collect sales tax from its customers to minimize its liability to the state. During the nine month period ended September 30, 2016 Costar concluded the procedures described above which resulted in payment of approximately $15 to the state of California. The reversal of the excess accrual of $95 is represented as an offset to operating expenses in the consolidated statement of income for the nine month period ended September 30, 2016.