COSTAR TECHNOLOGIES, INC.
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

December 31, 2016

COSTAR TECHNOLOGIES, INC. AND SUBSIDIARIES

CONTENTS

RSM US LLP

Independent Auditor's Report

To the Audit Committee
Costar Technologies, Inc. and Subsidiaries

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of Costar Technologies, Inc. and its subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, the related consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Costar Technologies, Inc. and its subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

RSM US LLP

Dallas, Texas
April 10, 2017

COSTAR TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(AMOUNTS SHOWN IN THOUSANDS)

	December 31, 2016	December 31, 2015
ASSETS		
Current assets		
Cash	$ 1,083	$
Accounts receivable, less allowance for doubtful accounts of $71 and $78 in 2016 and 2015, respectively	5,330	5,509
Inventories, net of reserve for obsolescence of $696 and $1,000 in 2016 and 2015, respectively	10,579	7,991
Prepaid expenses	820	644
Total current assets	17,812	14,144
Non-current assets		
Property and equipment, net	792	398
Deferred financing costs, net	39	22
Deferred tax asset, net	6,962	7,312
Trade names, net	3,005	2,227
Distribution agreement, net	697	771
Customer relationships, net	6,354	695
Covenant not to compete, net	160	14
Patents, net	8	
Technology, net	469	
Goodwill	5,593	2,063
Other non-current assets	109	
Total assets	$ 42,000	$ 27,646
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 3,449	$ 2,995
Accrued expenses and other	2,656	1,017
Line of credit	1,071	1,189
Current maturities of long-term debt	738	591
Contingent purchase price	1,367	
Notes payable, related party	804	
Total current liabilities	10,085	5,792
Long-Term liabilities		
Long-term debt, net of current maturities	6,216	590
Contingent purchase price	2,152	
Notes payable, related party	1,456	
Total long-term liabilities	9,824	590
Total liabilities	19,909	6,382
Commitments and Contingencies		
Stockholders' Equity		
Preferred stock		
Common stock	3	3
Additional paid in capital	156,409	156,216
Accumulated deficit	(129,800)	(130,434)
Less common stock held in treasury, at cost	(4,521)	(4,521)
Total stockholders' equity	22,091	21,264
Total liabilities and stockholders' equity	$ 42,000	$ 27,646

COSTAR TECHNOLOGIES, INC. AND SUBSIDIARIES

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

	For the Years Ended December 31, 2016	2015
Net revenues	$ 38,560	$ 33,678
Cost of revenues	23,747	20,477
Gross profit	14,813	13,201
Selling, general and administrative expenses	10,903	9,328
Engineering and development expense	2,457	2,789
Transaction and related expense	322	
	13,682	12,117
Income from operations	1,131	1,084
Other income (expenses)		
Interest expense	(118)	(153)
Other income, net	39	4
Total other expenses, net	(79)	(149)
Income before taxes	1,052	935
Current income tax expense	68	85
Deferred income tax expense	350	376
Net income	$ 634	$ 474
Net income per share:		
Basic	$ 0.43	$ 0.32
Diluted	$ 0.41	$ 0.31
Weighted average shares outstanding		
Basic	1,489	1,476
Diluted	1,541	1,527

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 Years Ended December 31, 2016 and 2015

	Common Stock		Additional Paid - In	Accumulated	Treasury Stock		Total Stockholders'
	Shares	Amount	Capital	Deficit	Shares	Amount	Equity
Balances at December 31, 2014	1,692	$ 3	$ 156,073	$ (130,908)	226	$ (4,521)	$ 20,647
Net income				474			474
Exercise of stock options	5		6				6
Excess tax benefit from exercise of stock options			6				6
Stock based compensation	14		131				131
Balances at December 31, 2015	1,711	$ 3	$ 156,216	$ (130,434)	226	$ (4,521)	$ 21,264
Net income				634			634
Expiration of stock options			(19)				(19)
Stock based compensation	8		212				212
Balances at December 31, 2016	1,719	$ 3	$ 156,409	$ (129,800)	226	$ (4,521)	$ 22,091

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 Years Ended December 31,	2016	2015
Cash flows from operating activities		
Net income	$ 634	$ 474
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on asset disposal	(19)	
Stock based compensation	212	131
Depreciation and amortization	548	527
Amortization of deferred financing costs	41	56
Provision for doubtful accounts	(7)	3
Provision for obsolete inventory	(304)	621
Expiration of stock options	(19)	
Deferred tax asset	350	376
Changes in operating assets and liabilities		
Accounts receivable, net	699	1,574
Inventories, net	(1,491)	(983)
Prepaid expenses	(176)	(337)
Other non-current assets	(109)	
Accounts payable	399	(504)
Accrued expenses and other	1,411	(882)
Net cash provided by operating activities	2,169	1,056
Cash flows from investing activities		
Purchase of property and equipment	(523)	(110)
Proceeds from the sale of property and equipment	27	
Acquisition of Innotech, net of cash acquired of $713 and $0, respectively	(6,187)	
Net cash used in investing activities	(6,683)	(110)
Cash flows from financing activities		
Contingent purchase price		(128)
Deferred financing costs	(85)	
Proceeds (repayment) on line of credit, net	(118)	670
Proceeds from term debt	7,000	
Repayment of term debt	(1,200)	(1,500)
Exercise of stock options		6
Excess tax benefit from exercise of stock options		6
Net cash provided by (used in) financing activities	5,597	(946)
Net change in cash	1,083	
Cash, beginning of period		
Cash, end of period	$ 1,083	$
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	$ 81	$ 97
Cash paid during the period for taxes	$ 87	$ 262
Supplemental disclosure of non-cash investing and financing activities:		
Subordinated seller notes issued for acquisition of Innotech	$ 2,260	$
Contingent purchase price for acquisition of Innotech	$ 3,519	$

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

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"), CohuHD Costar, LLC ("CohuHD Costar") and Innotech Security, Inc. ("Innotech") (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.

On December 29, 2016 Costar purchased Innotech, a value-added manufacturer of customized video, security surveillance systems and components for major U.S. retailers, restaurant chains and public venues requiring high quality, surveillance security (See Note 4).

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") 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 were approved by management and available for issuance on April 10, 2107. 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 14).

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 December 31, 2016 and December 31, 2015, the Company had $1,083 and $0 cash equivalents, respectively.

(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 $696 and $1,000 as of December 31, 2016 and December 31, 2015, respectively. Inventories at December 31, 2016 and December 31, 2015 were comprised of the following:

	December 31, 2016	December 31, 2015
Parts, components, and materials	$ 2,477	$ 1,982
Work-in-process	767	1,064
Finished products	7,335	4,945
Total Inventory	$ 10,579	$ 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 and network equipment	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 an 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. For the year ending December 31, 2016 no indicators warranting reevaluation arose and no impairment was recorded.

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 (See Note 5).

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 January 2017 the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2017-04 (ASU 2017-04): Intangibles – Goodwill and Other, which eliminates step two from the annual goodwill impairment test. ASU 2017-04 is effective in fiscal years beginning after December 15, 2021. The Company is currently evaluating the impact of the pending adoption of ASU 2017-04 on the consolidated financial statements.

2. Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements (continued)

In August 2016 the 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.

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.

2. Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements (continued)

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.

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 year ending December 31, 2016.

(AMOUNTS SHOWN IN THOUSANDS)

2. Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements (continued)

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.

During the years ended December 31, 2016 and 2015 the Company recognized $212 and $131 in stock based compensation expense in its consolidated financial statements relating to the issuance of stock options and stock awards, respectively.

The fair value of the 2016 and 2015 stock options was estimated on the date of grant using the Black-Scholes valuation model based on the following assumptions:

	Years Ended December 31,	
	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

(AMOUNTS SHOWN IN THOUSANDS)

2. Summary of Significant Accounting Policies (continued)

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 years ended December 31, 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 years ended December 31, 2016 and 2015:

	Years Ended December 31,			
		2016		2015
Net income	$	634	$	474
Shares				
Weighted average shares outstanding - basic		1,489		1,476
Weighted average dilutive share equivalents from stock options		52		51
Weighted average shares outstanding - diluted		1,541		1,527
Net income per share - basic	$	0.43	$	0.32
Net income per share - diluted	$	0.41	$	0.31

The number of potentially dilutive shares from stock options excluded from the diluted net income per share calculation as of December 31, 2016 and 2015 was 40 and 60, respectively.

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. Accrued interest and penalties related to income tax matters are classified as a component of income tax expense.

(AMOUNTS SHOWN IN THOUSANDS)

2. Summary of Significant Accounting Policies (continued)

Income Taxes (continued)

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 2013.

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 Systems (which includes Innotech), CohuHD Costar and Other. Costar Video Systems' products and services are largely used in retail security applications whereas CohuHD Costar's products are more focused on transportation, border security and other government applications. The Other segment encompasses the Company's costs associated with income taxes, company-wide financing (including interest expense), executive compensation and other corporate expenses. Revenues and net income (loss) by reportable segment for the years ending December 31, 2016 and 2015 are as follows:

	Years Ended December 31, 2016	2015
Revenues		
Costar Video Systems	$ 21,023	$ 19,745
CohuHD Costar	17,537	13,933
	38,560	33,678
Net Income (Loss)		
Costar Video Systems	$ 2,682	$ 2,504
CohuHD Costar	1,086	(69)
Other	(3,134)	(1,961)
	634	474

Intercompany sales between the CohuHD Costar and Costar Video Systems operating segments totaled $47 and $51 for the years ending December 31, 2016 and 2015 and have been eliminated upon consolidation.

(AMOUNTS SHOWN IN THOUSANDS)

3. Segment Information (continued)

The following table reflects depreciation and amortization expense by business segment for the years ending December 31, 2016 and 2015:

	Years Ended December 31, 2016	2015
Depreciation		
Costar Video Systems	$ 47	$ 44
CohuHD Costar	83	65
	130	109
Amortization		
Costar Video Systems	$ 94	$ 94
CohuHD Costar	324	324
	418	418

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

	December 31, 2016	December 31, 2015
Total Assets		
Costar Video Systems	$ 23,663	$ 9,427
CohuHD Costar	10,844	10,845
Other	7,493	7,374
	42,000	27,646
Goodwill		
Costar Video Systems	$ 3,530	$
CohuHD Costar	2,063	2,063
	5,593	2,063

4. Acquisition

Effective December 29, 2016, Costar completed the acquisition (the "Acquisition") of Innotech, a value-added manufacturer of customized video, security surveillance systems and components for major U.S. retailers, restaurant chains and public venues, pursuant to the transactions contemplated by the Share Purchase Agreement ("Purchase Agreement"), dated December 29, 2016, by and among Costar Technologies, Inc., Costar Video Systems, LLC, and the shareholders of Innotech Security, Inc. Results from operations for Innotech have been included in the Company's consolidated financial statements since December 29, 2016.

Total consideration for the Acquisition was approximately $12,779, consisting of a cash payment of $6,900, net of an estimated working capital holdback of $100, assumption of $2,500 in subordinated seller notes and deferred consideration of up to $6,000 in cash, contingent upon Innotech Security achieving certain EBITDA targets. The fair value of the seller notes and deferred consideration was estimated to be $2,260 and $3,519 at December 31, 2016, respectively.

(AMOUNTS SHOWN IN THOUSANDS)

4. Acquisition (continued)

The Company acquired Innotech to expand its footprint in the security and surveillance industry and cross-selling opportunities and its additive value to the Company's profits.

Certain expenses were incurred related to the Acquisition in the amount of $322 for the year ended December 31, 2016.

The Acquisition meets the definition of a business combination under GAAP. The following table presents a summary of the fair value of assets acquired and liabilities assumed as of December 29, 2016.

Assets acquired:		
Cash	$	713
Accounts receivable		513
Inventories		793
Property and equipment		9
Trade name		1,015
Customer relationships		5,762
Covenant not to compete		150
Patents		8
Technology		469
Goodwill		3,530
Total assets acquired		12,962
Liabilities assumed:		
Accounts payable		55
Accrued expenses		128
Total liabilities assumed		183
Total assets acquired and liabilities assumed, net	$	12,779

The gross contractual value of accounts receivable approximates the fair value of accounts receivable at the time of the transaction.

Goodwill arising from the acquisition consists primarily of assembled workforce and other intangible assets that do not qualify for separate recognition. The entire goodwill balance is expected to be deductible for tax purposes.

Included in the consolidated statement of income are Innotech revenues of $11 and net loss of $5 for the year ended December 31, 2016. The following pro forma information gives effect to the acquisition as if it had occurred on the first day of each of the years ended December 31, 2016 and December 31, 2015:

	Year Ended December 31,			
		2016		2015
Total revenue	$	45,321	$	41,076
Pre-tax income	$	3,335	$	3,791

5. Fair Value Measurements

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.

The Company applies the following fair value hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

Level 1: Quoted prices in active markets for identical assets or liabilities that the entity has the ability to access.

Level 2: Observable inputs other than prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated with observable market data.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. This includes certain pricing models, discounted cash flow methodologies, and similar techniques that use significant unobservable inputs.

Contingent Purchase Price

As of December 31, 2016, the Company had obligations to transfer $3,519 in contingent purchase price to the prior shareholders of Innotech in conjunction with the Acquisition if specified future operational objectives are met over the next three years. The Company recorded the acquisition-date fair value of this liability, based on the likelihood of contingent earn-out payments, as part of the consideration transferred. The Company does not believe there have been any material changes to the acquisition-date fair value as of December 31, 2016. The contingent purchase price is subsequently remeasured to fair value each reporting date. The Company classified the contingent purchase price liability as Level 3, due to the lack of relevant observable inputs and market activity.

Increases or decreases in the fair value of our contingent purchase price liability can result from changes in discount periods and rates, as well as changes in the timing and amount of revenue and EBITDA estimates. The contingent consideration fair market value was estimated using a Monte Carlo simulation. The recurring Level 3 fair value measurement of our contingent purchase price liability included the following unobservable inputs: management's EBITDA forecasts, risk-free interest rate based on the U.S. Treasury Strip rate and volatility based on the average of historical and implied asset volatilities of selected guideline public companies.

(AMOUNTS SHOWN IN THOUSANDS)

5. Fair Value Measurements (continued)

Contingent Purchase Price (continued)

The following table summarizes financial liabilities measured at fair value on a recurring basis as of December 31, 2016, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

		Fair Value Measurement at Reporting Date Using		
Description	As of December 31, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Liabilities:				
Contingent purchase price	$ 3,519	$	$	$ 3,519

The following table reflects the activity for liabilities measured at fair value using Level 3 inputs for the years ending December 31, 2016 and 2015:

Balance as of December 31, 2015	$
Issuances	3,519
Payments	
Related change in fair value	
Balance as of December 31, 2016	$ 3,519

Related Party Notes Payable

As of December 31, 2016, the Company had obligations to transfer $2,260 in notes payable to the prior shareholders of Innotech. The notes payable are due in equal monthly installments over the next three years. The Company recorded the acquisition-date fair value of this liability using a discounted cash flow model. The Company classified the related party notes payable liability as Level 3, due to the lack of relevant observable inputs and market activity. The significant unobservable input included in the Level 3 fair value was the discount rate of 2.8%.

(AMOUNTS SHOWN IN THOUSANDS)

6. Property and Equipment

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

	2016	2015
Furniture, equipment and leasehold improvements	$ 1,298	$ 915
Less accumulated depreciation	(506)	(517)
Total property and equipment, net	$ 792	$ 398

Depreciation expense for the years ending December 31, 2016 and 2015 was $130 and $109, respectively.

7. Intangible Assets

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

	December 31, 2016	
	Gross Amount	Accumulated Amortization
Amortized intangible assets		
Customer relations - Southern Imaging	$ 1,599	$ 1,599
Distribution agreement - Southern Imaging	1,468	771
Customer relations - IVS	125	107
Covenant not to compete - IVS	50	50
Trade name - CohuHD	1,657	592
Customer relationships - CohuHD	779	205
Covenant not to compete - CohuHD	20	10
Trade name - Innotech	1,015	
Customer relations - Innotech	5,762	
Covenant not to compete - Innotech	150	
Technology - Innotech	469	
Patents - Innotech	8	
Total amortized intangible assets	13,102	3,334
Unamortized intangible assets		
Trade name - Costar	800	
Trade name - IVS	125	
Goodwill - CohuHD	2,063	
Goodwill - Innotech	3,530	
Total unamortized intangible assets	6,518	
Total intangible assets	$ 19,620	$ 3,334

(AMOUNTS SHOWN IN THOUSANDS)

7. Intangible Assets (continued)

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

	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

The weighted average amortization period for the Company's intangible assets is 11 years. Amortizable intangible assets estimated useful lives are as follows:

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

Amortization expense for the years ended December 31, 2016 and 2015 was $418. Future amortization expense, as of December 31, 2016 is as follows:

Year Ending December 31,	
2017	$ 1,267
2018	1,230
2019	1,209
2020	1,187
2021	1,049
Thereafter	3,826
Total future amortization expense	$ 9,768

(AMOUNTS SHOWN IN THOUSANDS)

8. 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.

In connection with the acquisition of Innotech on December 29, 2016 the Company entered into an Installment Note Agreement, Master Revolving Note Agreement and Revolving Draw Note Agreement with Comerica Bank ("Comerica Agreements"). The Comerica Agreements allow for up to $3,000 in a revolving line of credit under the Master Revolving Note Agreement, up to $3,000 in advances under the Revolving Draw Note Agreement, both with maturities of December 30, 2019, and a $7,000 term loan which matures on December 29, 2023. The term loan is payable in $250 quarterly payments due the first business day following each quarter end, commencing in April 2017, with any unpaid principal and interest due at maturity. Obligations under the Accord and Agreement with Bank of Texas were extinguished upon entering into the Comerica Agreements. The obligations under the Comerica Agreements are secured by a lien on substantially all accounts receivable, inventory and equipment. As of December 31, 2016, the Company was paying interest at 3.26% for the term loan and 3.27% for the line of credit.

Future principal payments for the term loan, as of December 31, 2016, are as follows:

Year Ending December 31,		
2017	$	750
2018		1,000
2019		1,000
2020		1,000
2021		1,000
Thereafter		2,250
Less: deferred financing costs, net		(46)
	$	6,954

The Comerica Agreements contain 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 Comerica Agreements contain financial covenants calculated on a consolidated basis requiring the Company to maintain a certain Debt Service Coverage Ratio and to not exceed a maximum Senior Cash Flow Leverage Ratio. The Company maintains zero balance accounts, which are swept daily to the revolving line of credit. As of December 31, 2016 and December 31, 2015, $0 and $1,189 was owed to Bank of Texas on the revolving line of credit and $0 and $1,200 was owed to Bank of Texas on the term loan, respectively. As of December 31, 2016 and December 31, 2015, $1,071 and $0 was owed to Comerica Bank on the revolving line of credit and $7,000 and $0 on the term loan, respectively.

The Company paid approximately $84 in various fees associated with securing the Comerica Agreements. The fees are treated as a deferred financing costs asset and will be amortized over the life of the accord using the straight-line method for the revolving line of credit portion and the effective-interest method for the term note portion.

(AMOUNTS SHOWN IN THOUSANDS)

9. Income Taxes

ASC 740 *Income Taxes* provides that the tax effects form an uncertain tax position can be recognized in the Company's financial statements only if the position is more-likely-than-not of being sustained on audit, based on the technical merits of the position. Tax positions that meet the recognition threshold are reported at the largest amount that is more-likely-than-not to be realized. This determination requires a high degree of judgment and estimation. The Company periodically analyzes and adjusts amounts recorded for the Company's uncertain tax positions, as events occur to warrant adjustment, such as when the statutory period for assessing tax on a given tax return or period expires or if tax authorities provide administrative guidance or a decision is rendered in the courts. The Company does not reasonably expect the total amount of uncertain tax positions to significantly increase or decrease within the next 12 months.

As of December 31, 2016, the Company's management determined that it was more likely than not that it will utilize its $14,974 in NOL carryforwards prior to expiration, which occurs in 2019 through 2030. The Company's management also believes that it is more likely than not that it will utilize $1,081 in tax credit carryforwards prior to expiration, which occurs in 2018 through 2021. In its assessment, management considered whether it was more likely than not that some portion or all of the NOL carryforwards would be realized. The realization of a deferred tax asset is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considered the scheduled reversal of deferred tax liabilities and the projected future taxable income in making this assessment. Based upon the level of projected future taxable income over the period of expiration of the NOL carryforwards when temporary differences that give rise to the deferred tax assets are deductible, management released a portion of its valuation allowance.

The components of income tax expense are as follows:

	Years Ended December 31,	
	2016	2015
Current, federal	$ 13	$ 54
Current, state	55	31
Deferred, federal	364	417
Deferred, state	(14)	(41)
Income Tax Expense	$ 418	$ 461

A reconciliation of the income tax expense computed at the statutory federal income tax rate consists of the following:

	Years Ended December 31,	
	2016	2015
Income tax benefit at the statutory rate	$ 358	$ 318
Decrease (increase) resulting from:		
State income tax (benefit), net of federal tax effect	27	(7)
Other	14	124
Permanent items	19	26
	$ 418	$ 461

(AMOUNTS SHOWN IN THOUSANDS)

9. Income Taxes (continued)

The components of the Company's deferred taxes consist of the following:

	Years Ended December 31, 2016	Years Ended December 31, 2015
Deferred tax assets		
Accounts receivable	$ 25	$ 25
Inventory	307	277
Net operating losses	5,091	5,667
Intangibles	300	258
Stock compensation	178	161
Accrued expenses	330	136
Tax credits	1,990	1,965
	8,221	8,489
Valuation allowance	(909)	(909)
Net deferred tax assets	$ 7,312	$ 7,580
Deferred tax liabilities		
Property and equipment, net	$ 168	$ 106
Intangibles, indefinite lived	149	118
Prepaid expenses	33	44
Net deferred tax liability	350	268
	$ 6,962	$ 7,312

10. Stockholders' Equity (shown in whole amounts)

At December 31, 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 December 31, 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 December 31, 2016 and December 31, 2015, there were 1,492,991 and 1,484,709 shares of common stock outstanding and 1,718,757 and 1,710,475 shares of common stock issued, respectively.

11. 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 December 31, 2016 and December 31, 2015, there were 119,066 and 123,282 share options issued under this plan, respectively.

(AMOUNTS SHOWN IN THOUSANDS)

11. Stock Option Plan (shown in whole amounts) (continued)

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.

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 December 31, 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 December 31, 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-$15.02	135,066	5.09	$5.45	127,420	$5.23

Stock option activity for the year ended December 31, 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	127,420	$5.23	114,795	$5.14
Weighted average fair value of options granted during the period at fair value		$6.36		$7.70

(AMOUNTS SHOWN IN THOUSANDS)

11. 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 (the "Awards") to certain employees pursuant to the provisions of the Plan. The Awards were granted on October 16, 2015. All of the 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 Awards Agreements. The 25% of the 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. As of December 31, 2016 the fair value of the vested awards was approximately $75,000 and the fair value of the non-vested awards was $0. The $75,000 was recognized as stock based compensation expense in the Company's financial statements, $15,000 in the year ending December 31, 2015 and $60,000 in the year ending December 31, 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. As of December 31, 2016 the fair value of the vested awards was approximately $57,000 and the fair value of the non-vested awards was $57,000. The $57,000 was recognized as stock based compensation expense in the Company's financial statements for the year ending December 31, 2016.

Restricted stock activity for the years ended December 31, 2016 and December 31, 2015 is as follows:

	Year Ended December 31, 2016		Year Ended December 31, 2015	
	Number of Shares	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Grant Date Fair Value
Non-vested, beginning of period	11,594	$104,926		
Granted	13,250	$113,288	13,250	$119,913
Vested	(13,250)	($116,600)	(1,656)	($14,987)
Canceled and forfeited	(4,968)	($44,960)		
Non-vested, end of period	6,626	$56,654	11,594	$104,926

During the year ended December 31, 2016 the Company recognized approximately $212,000 in stock based compensation expense in its consolidated financial statements. The Company recorded approximately $131,000 in stock based compensation expense during the year ended December 31, 2015.

12. Lease Agreements and Related Party Transactions

On January 31, 2011 the Company entered into a lease agreement for certain facilities that will expire in 2018. Rent expense under the agreement for the years ended December 31, 2016 and 2015 was approximately $172 and $115, respectively.

(AMOUNTS SHOWN IN THOUSANDS)

12. Lease Agreements and Related Party Transactions (continued)

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 years ended December 31, 2016 and 2015 was approximately $550 and $526, respectively.

On May 20, 2016 the Company signed a seventy-eight month lease for the new CohuHD Costar facilities which commenced on December 31, 2016 that will expire in 2023. Rent expense under the agreement for the year ended December 31, 2016 was approximately $28.

On December 29, 2016 the Company signed a three-year lease with a related party for the Innotech facilities which will commence on January 1, 2017. There was no rent expense under the agreement for the year ended December 31, 2016.

During the year ending December 31, 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 year ending December 31, 2016.

Future minimum annual rent payments as of December 31, 2016 are approximately as follows:

Year Ending December 31,	3rd Party	Related Party	Total
2017	$ 399	$ 103	$ 502
2018	435	106	541
2019	341	109	450
2020	352		352
2021	362		362
Thereafter	533		533
Total future minimum lease commitments	$ 2,422	$ 318	$ 2,740

13. 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.

13. Risk Concentrations (continued)

Concentration of Customers

For the year ended December 31, 2016 Costar Video Systems' two largest customers, Wal-Mart Stores, Inc. and Protection 1 Security Solutions, accounted for approximately $10,299 or 26.7% of the Company's total revenue. For the year ended December 31, 2015 Costar Video Systems' two largest customers Wal-Mart Stores, Inc. and Diebold, Inc. accounted for approximately $9,694 or 28.8% of the Company's total revenue. Amounts owed by two and three main customers accounted for $996 and $2,187, or 18.7% and 39.7% of the outstanding accounts receivable balance as of December 31, 2106 and 2015, respectively.

Concentration of Suppliers

For the years ended December 31, 2016 and 2015, the Company made purchases from one main supplier of the Costar Video Systems operating segment of approximately 24.7% and two main suppliers of approximately 24.2%, respectively. Amounts owed to one main supplier of the Costar Video Systems operating segment accounted for 41.0% and two main suppliers accounted for 50.8% of the Company's accounts payable balance, as of December 31, 2016 and December 31, 2015, respectively.

14. 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 year ended December 31, 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 year ending December 31, 2016.