McGladrey

Independent Auditor's Report

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

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of Costar Technologies, Inc. and subsidiaries, which comprise the balance sheet as of December 31, 2014, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audit. We conducted our audit 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Costar Technologies, Inc. and subsidiaries as of December 31, 2014, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter
The consolidated financial statements of Costar Technologies, Inc. and subsidiaries, as of and for the year ended December 31, 2013, were reviewed by other accountants whose report, dated March 31, 2014, stated that, based on their review, they were not aware of any material modifications that should be made to those consolidated financial statements for them to be in conformity with accounting principles generally accepted in the United States of America. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements.

McGladrey LLP

Dallas, Texas
May 8, 2015

COSTAR TECHNOLOGIES, INC. AND SUBSIDIARIES

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COSTAR TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(AMOUNTS SHOWN IN THOUSANDS)

	December 31, 2014	December 31, 2013 (Reviewed)
ASSETS		
Current assets		
Cash	$	$ 1,637
Accounts receivable, less allowance for doubtful accounts of $75 in 2014 and 2013	7,086	2,136
Inventories, net of reserve for obsolescence of $379 in 2014 and 2013	7,629	7,180
Promissory note - current		86
Prepaid expenses	307	207
Deferred tax asset - current	408	
Total current assets	15,430	11,246
Non-current assets		
Property and equipment, net	397	69
Deferred financing costs, net	97	
Deferred tax asset, non-current	7,280	
Trade names, net	2,464	925
Distribution agreement, net	844	918
Customer relationships, net	799	80
Covenant not to compete, net	18	14
Goodwill	2,063	
Total assets	$ 29,392	$ 13,252
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 3,499	$ 2,448
Accrued expenses and other	1,899	832
Line of credit	519	
Short-term debt	600	
Contingent purchase price	128	
Total current liabilities	6,645	3,280
Long-Term liabilities		
Long-term debt	2,100	
Total long-term liabilities	2,100	
Total liabilities	8,745	3,280
Commitments and Contingencies		
Stockholders' Equity		
Preferred stock		
Common stock	3	3
Additional paid in capital	156,073	155,912
Accumulated deficit	(130,908)	(141,422)
Less common stock held in treasury, at cost	(4,521)	(4,521)
Total stockholders' equity	20,647	9,972
Total liabilities and stockholders' equity	$ 29,392	$ 13,252

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

COSTAR TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
(AMOUNTS SHOWN IN THOUSANDS)

	For the Years Ended December 31, 2014	2013 (Reviewed)
Net revenues	$ 36,051	$ 26,476
Cost of revenues	22,489	19,009
Gross profit	13,562	7,467
Selling, general and administrative expenses	8,398	5,370
Engineering and development expense	1,655	224
Transaction and related expense	397	
	10,450	5,594
Income from operations	3,112	1,873
Other income (expenses)		
Interest expense	(93)	(52)
Other income and expense, net	(26)	105
Total other income (expenses), net	(119)	53
Income before taxes	2,993	1,926
Current income tax expense	167	19
Deferred income tax (benefit)	(7,688)	
Net income	$ 10,514	$ 1,907
Net income per share:		
Basic	$ 7.19	$ 1.31
Diluted	$ 6.92	$ 1.25
Weighted average shares outstanding		
Basic	1,462	1,453
Diluted	1,520	1,530

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, 2014 and 2013

	Common Stock		Additional Paid - In	Treasury Stock		Accumulated	Total Stockholders'
	Shares	Amount	Capital	Shares	Amount	Deficit	Equity
Balances at December 31, 2012 (reviewed)	1,680	$ 2	$ 155,893	233	$ (4,523)	$ (143,329)	$ 8,043
Net income						1,907	1,907
Liquidation of treasury stock				(7)	2		2
Exercise of stock options	4	1	4				5
Stock based compensation			15				15
Balances at December 31, 2013 (reviewed)	1,684	$ 3	$ 155,912	226	$ (4,521)	$ (141,422)	$ 9,972
Net income						10,514	10,514
Exercise of stock options	8		37				37
Stock based compensation			124				124
Balances at December 31, 2014	1,692	$ 3	$ 156,073	226	$ (4,521)	$ (130,908)	$ 20,647

COSTAR TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(AMOUNTS SHOWN IN THOUSANDS)

For the Years Ended December 31,	2014	2013 (Reviewed)
Cash flows from operating activities		
Net income	$ 10,514	$ 1,907
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock based compensation	124	15
Depreciation and amortization	377	148
Amortization of deferred financing costs	28	
Provision for doubtful accounts		8
Provision for obsolete inventory		(296)
Deferred tax asset	(7,688)	
Changes in operating assets and liabilities, net of acquisition:		
Accounts receivable, net	(2,871)	(115)
Inventories, net	3,370	(2,752)
Prepaid expenses	123	174
Accounts payable	615	1,553
Accrued expenses and other	861	723
Net cash provided by operating activities	5,453	1,365
Cash flows from investing activities		
Purchase of property and equipment	(79)	(2)
Long term note related to the sale of Sielox, LLC assets	86	323
Acquisition of CohuHD	(9,886)	
Net cash provided by (used in) investing activities	(9,879)	321
Cash flows from financing activities		
Deferred financing costs	(125)	
Contingent purchase price	(342)	
Proceeds (repayment) on lines of credit	519	(170)
Proceeds from term debt	3,000	
Payments toward term debt	(300)	
Common stock		1
Exercise of stock options	37	4
Liquidation of Treasury Stock		2
Net cash provided by (used in) financing activities	2,789	(163)
Net increase (decrease) in cash	(1,637)	1,523
Cash, beginning of period	1,637	114
Cash, end of period	$ -	$ 1,637
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	$ 93	$ 52
Cash paid during the period for taxes	$ 41	$ 43

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") and LQ Corporation ("LQ") (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. The Company also develops, designs and distributes industrial vision products to observe repetitive production and assembly lines, thereby increasing efficiency by detecting faults in the production process.

Effective June 6, 2014, the Company and its newly formed, wholly owned subsidiary, Sirius Acquisition, LLC purchased CohuHD, the camera products and video solutions division of Cohu, Inc. On June 13, 2014, the name of Sirius Acquisition, LLC was changed to CohuHD Costar, LLC ("CohuHD Costar"). 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 (See Note 3).

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 May 8, 2015. Subsequent events have been evaluated through this date.

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, 2014 and December 31, 2013, the Company had no such cash equivalents.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are 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. Customer receivable balances are not collateralized.

(AMOUNTS SHOWN IN THOUSANDS)

2. Summary of significant accounting policies (continued)

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 $379 as of 2014 and 2013.

	December 31, 2014	December 31, 2013
Parts, components, and materials	$ 1,817	$
Work-in-process	714	
Finished products	5,098	7,180
Total Inventory	$ 7,629	$ 7,180

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are 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.

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. No indicators warranting reevaluation arose during the year ended December 31, 2014.

2. Summary of significant accounting policies (continued)

Fair Value Measurements

During the second quarter of 2014, the Company adopted 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 4)

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 May 2014, the FASB issued 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 2017 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 selling, general and administrative expenses in the consolidated statements of income, are expensed as incurred.

Reclassification of Certain Expenses

Certain expenses on the statement of income for the year ended December 31, 2013, have been reclassified, with no effect on net income (or earnings per common share), to be consistent with the classifications adopted for the year ended December 31, 2014.

(AMOUNTS SHOWN IN THOUSANDS)

2. Summary of significant accounting policies (continued)

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 twelve months ended December 31, 2014 the Company recognized $124 in stock based compensation expense in its consolidated financial statements relating to the issuance of stock options. The Company recorded $15 in stock based compensation expense during the year ended December 31, 2013 relating to the issuance of stock options.

The fair value of the 2014 stock options was estimated on the date of grant using the Black-Scholes valuation model based on the following assumptions:

	Year Ended December 31, 2014
Expected dividend yield	0.00%
Expected stock price volatility	71.80% -84.05%
Risk-free interest rate	2.00%
Expected life in years	10 years
Weighted-average fair value of options granted	$9.41

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 year ended December 31, 2014, 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.

(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)(continued)

The following table reconciles the number of shares utilized in the net income per share calculations for the year ended December 31, 2014 and 2013:

	Years Ended December 31, 2014	Years Ended December 31, 2013
Net income	$ 10,514	$ 1,907
Shares		
Weighted average shares outstanding - basic	1,462	1,453
Weighted average dilutive share equivalents from stock options	58	77
Weighted average shares outstanding - diluted	1,520	1,530
Net income per share - basic	$ 7.19	$ 1.31
Net income per share - diluted	$ 6.92	$ 1.25

The number of potentially dilutive shares from stock options excluded from the diluted net income per share calculation as of December 31, 2014 and 2013 was 24 and 2, 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.

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 2011.

(AMOUNTS SHOWN IN THOUSANDS)

3. Acquisition

Effective June 6, 2014, the Company and its newly formed, wholly owned subsidiary, Sirius Acquisition, LLC, completed the acquisition (the "Acquisition") of substantially all of the assets of CohuHD, a division of the camera products and video solutions division of Cohu, Inc., pursuant to the transactions contemplated by the Asset Purchase Agreement ("Purchase Agreement"), dated as of June 3, 2014, by and among the Costar Technologies, Inc., Sirius Acquisition, LLC, and Cohu, Inc. On June 13, 2014, the name of Sirius Acquisition, LLC was changed to CohuHD Costar, LLC ("CohuHD Costar"). Results from operations for CohuHD Costar have been included in the Company's consolidated financial statements since June 6, 2014.

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. Total consideration for the Acquisition was approximately $10,315, consisting of a cash payment of $9,886 (including an estimated working capital adjustment of $386) less a final working capital adjustment of $41 and deferred consideration of up to $500 in cash, contingent upon CohuHD Costar shipping and receiving payment for specified purchase orders within twelve months of close, for which the fair value was estimated to be $470 and was recorded as a short term liability. At December 31, 2014, the estimate of deferred consideration was adjusted to $500. The change in estimated deferred consideration of $30 is included in the other income (expenses) in the consolidated statements of income. The Company made an earn-out payment of $372 during 2014 and increased the fair value measurement by $30, with a $128 remaining balance at December 31, 2014.

The Company acquired CohuHD Costar for its leadership in the traffic market, complementary products, unique customer base, cross selling opportunities, and its additive value to the Company's profits. CohuHD Costar provides a new customer base and a new sales channel to the Company.

Certain expenses were incurred related to the Acquisition in the amount of $397 for the year ended December 31, 2014.

The Acquisition of these assets 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 June 6, 2014.

Assets acquired:	
Accounts receivable	$ 2,038
Inventories	3,819
Prepaid expenses	223
Property and equipment	358
Trade name	1,657
Customer relationships	779
Covenant not to compete	20
Goodwill	2,063
Total assets acquired	10,957
Liabilities assumed:	
Accounts payable	436
Accrued expenses	206
Total liabilities assumed	642
Total assets acquired and liabilities assumed, net	$ 10,315

(AMOUNTS SHOWN IN THOUSANDS)

3. Acquisition (continued)

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 CohuHD Costar revenues and net income of $11,256 and $1,458, respectively, for the year ended December 31, 2014. 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, 2014 and 2013.

	Year Ended December 31, 2014	2013
Total revenue	$ 41,511	$ 42,265
Net income	$ 9,982	$ 3,224

4. 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.

(AMOUNTS SHOWN IN THOUSANDS)

4. Fair value measurements (continued)

Contingent consideration

As of December 31, 2014, the Company had obligations to transfer $128 in contingent purchase price to Cohu, Inc. in conjunction with the Acquisition, if specified future operational objectives are met over the next year. The Company recorded the acquisition-date fair value of these contingent liabilities, based on the likelihood of contingent earn-out payments, as part of the consideration transferred. The earn-out payments are subsequently remeasured to fair value each reporting date. For contingent purchase price to be settled in cash, the Company used a discounted cash flow method using internal models. The Company classified the financial liabilities to be settled in cash as Level 3, due to the lack of relevant observable inputs and market activity.

The following table summarizes financial liabilities measured at fair value on a recurring basis as of December 31, 2014, 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, 2014	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	$ 128			$ 128

The following table reflects the activity for liabilities measured at fair value using Level 3 inputs as of December 31, 2014:

Balance as of December 31, 2013	$
Issuances of contingent purchase price	470
Payments made on contingent purchase price	(372)
Related change in fair value	30
Balance as of December 31, 2014	$ 128

5. Property and equipment

Property and equipment at December 31, 2014 and December 31, 2013, were as follows:

	2014	2013
Office furniture and equipment	$ 832	$ 395
Less accumulated depreciation	(435)	(326)
Total property and equipment, net	$ 397	$ 69

Depreciation expense for the years ended December 31, 2014 and 2013 was $109 and $38, respectively.

(AMOUNTS SHOWN IN THOUSANDS)

6. Intangible assets

The following is a summary of amortized and unamortized intangible assets December 31, 2014 and 2013.

	December 31, 2014	
	Gross Amount	Accumulated Amortization
Amortized intangible assets		
Customer relations - Southern Imaging	$ 1,599	$ 1,599
Distribution agreement - Southern Imaging	1,468	624
Customer relations - IVS	125	66
Covenant not to compete - IVS	50	50
Trade name - CohuHD	1,657	118
Customer relationships - CohuHD	779	39
Covenant not to compete - CohuHD	20	2
Total amortized intangible assets	5,698	2,498
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	$ 2,498

	December 31, 2013	
	Gross Amount	Accumulated Amortization
Amortized intangible assets		
Customer relations - Southern Imaging	$ 1,599	$ 1,599
Distribution agreement - Southern Imaging	1,468	550
Customer relations - IVS	125	45
Covenant not to compete - IVS	50	36
Total amortized intangible assets	3,242	2,230
Unamortized intangible assets		
Trade name - Costar	800	
Trade name - IVS	125	
Total unamortized intangible assets	925	
Total intangible assets	$ 4,167	$ 2,230

(AMOUNTS SHOWN IN THOUSANDS)

6. Intangible assets (continued)

The weighted average amortization period for the Company's intangible assets is 8 years. The estimated useful lives for customer relationships, distribution agreements and covenant not to compete are 6, 20 and 3 years, respectively. The intangibles gained from the CohuHD Costar acquisition are trade name, customer relationships, and noncompete agreement which have estimated useful lives of 7, 10, and 5 years respectively.

Amortization expense for the years ended December 31, 2014 and 2013 was $268 and $110, respectively. Future amortization expense, as of December 31, 2014, is as follows:

Year Ending December 31,	
2015	419
2016	418
2017	413
2018	395
2019	392
Thereafter	1,163
Total future amortization expense	$ 3,200

7. Lines of credit and long-term debt

Effective as of September 23, 2011, Costar entered into a Loan and Security Agreement with Briar Capital L.P. ("Briar"). The Loan and Security Agreement allows for up to $3,500 in revolving lines of credit, with a three year maturity. The obligations under the Costar Loan and Security Agreement with Briar are secured by a lien on substantially all accounts receivable, inventory, equipment, general intangibles, including intellectual property, chattel paper, instruments and documents of Costar, as set forth in the Loan and Security Agreement with Briar. The Company is a guarantor of Costar's obligations under the Costar Loan and Security Agreement with Briar pursuant to the guaranty made by the Company in favor of Briar. Borrowings under the Loan and Security Agreement accrue interest at a rate equal to the 30-day LIBOR rate plus 8.25% per annum.

The Costar Loan and Security Agreement with Briar 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 equity interests. The Costar Loan and Security Agreement with Briar also contain financial covenants restricting capital expenditures of Costar and requiring Costar and the Company to maintain a specific Tangible Net Worth. As of December 31, 2014 and 2013, $0 was owed to Briar.

Effective April 1, 2013, Costar entered into a Loan and Security Agreement ("Facility") with BOKF, NA dba Bank of Texas ("Bank of Texas"). The Facility allows for up to $1,000 in a revolving line of credit, with a one year maturity. The obligation under the Facility with Bank of Texas is secured by a lien on substantially all accounts receivable, inventory, and equipment. The Company is a guarantor of Costar's obligation under the Facility with Bank of Texas pursuant to the guaranty made by the Company in favor of Bank of Texas. Borrowings under the Facility accrue interest at a rate equal to Bank of Texas Prime, currently 4.0% per annum. With the execution of the new Bank of Texas Facility, the Briar loan was paid in full and closed.

(AMOUNTS SHOWN IN THOUSANDS)

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

The Facility 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 equity interests. The Facility with Bank of Texas also contains 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.

Effective March 31, 2014, Costar entered into a Change in Terms Agreement with Bank of Texas extending the maturity date of the Facility to May 31, 2014. The amount owed on the Facility as of March 31, 2014 and May 31, 2014 was $0.

Effective May 31, 2014, Costar entered into a Change in Terms Agreement with Bank of Texas extending the maturity date of the Facility to June 30, 2014. The amount owed on the Facility as of May 31, 2014 and June 30, 2014 was $0.

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. The obligation under the Accord with Bank of Texas is secured by a lien on substantially all accounts receivable, inventory, and equipment. As of December 31, 2014, the Company was paying interest at the BOKF prime rate (3.25%) for the revolving line of credit and LIBOR plus 2.9% (3.06%) for the term loan. With the execution of the new Accord, the Bank of Texas $1,000 Facility was closed.

Future principal payments for the term loan, as of December 31, 2014, are as follows:

Year Ending December 31,		
2015		600
2016		600
2017		600
2018		600
2019		300
Total term loan principal payments	$	2,700

The Accord 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 with Bank of Texas contains 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. As of December 31, 2014 and 2013, $519 and $0 was owed to Bank of Texas on the revolving line of credit and $2,700 and $0 was owed to Bank of Texas on the term loan, respectively.

The Company paid approximately $125 in various fees associated with securing the new accord. The fees are treated as a deferred financing costs assets 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)

8. Income taxes

ASC 740 *Income Taxes* provides that the tax effects from 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, 2014, the Company's management determined that it was more likely than not that it will utilize its $17,700 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 $1,034 in a 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 net operating loss carry forwards 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, 2014	2013
Current, federal	$ 70	$
Current, state	97	19
Deferred, federal	(7,688)	
Deferred, state		
Income Tax Expense	$ (7,521)	$ 19

A reconciliation of the income tax expense (benefit) computed as the statutory federal income tax rate consists of the following:

	Years Ended December 31, 2014	2013
Income tax benefit at the statutory rate	$ 1,018	$ 655
Decrease (increase) resulting from:		
State income tax benefit, net of federal tax effect	64	19
Change in valuation allowance	(8,548)	(655)
Other	(60)	
Permanent items	5	
	$ (7,521)	$ 19

(AMOUNTS SHOWN IN THOUSANDS)

8. Income taxes (continued)

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

	Years Ended December 31, 2014	2013
Deferred tax assets		$
Accounts receivable	$ 25	26
Inventory	227	227
Prepaid expense	71	70
Net operating losses	6,014	7,039
Intangibles	284	241
Stock compensation	109	67
Accrued expenses	133	
Tax credits	1,943	1,861
	8,806	9,531
Valuation allowance	(909)	(9,457)
Net deferred tax assets	$ 7,897	$ 74
Deferred tax liabilities		
Property and equipment, net	$ 122	$ 18
Intangibles, indefinite lived	87	56
Net deferred tax liability	209	74
	$ 7,688	$

The net deferred tax asset is presented in the accompanied balance sheet as follows:

	Years Ended December 31, 2014	2013
Deferred tax asset, current	$ 408	$
Deferred tax asset, non-current	7,280	
	$ 7,688	$

(AMOUNTS SHOWN IN THOUSANDS)

9. Stockholders' equity (shown in whole amounts)

At December 31, 2014 and 2013, 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, 2014 and 2013, 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, 2014, there were 1,466,259 shares of common stock outstanding and 1,692,025 shares of common stock issued. As of December 31, 2013, there were 1,458,659 shares of common stock outstanding and 1,684,425 shares of common stock issued.

10. 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, 2014 there were 135,982 share options issued under this plan. At December 31, 2014, there were 124,354 shares available for issuance under the 2000 Incentive Plan.

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, 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.

The following table summarizes information about stock options outstanding at December 31, 2014:

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	135,982	6.33	$5.24	101,811	$4.52

(AMOUNTS SHOWN IN THOUSANDS)

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

Stock option activity for the years ended December 31, 2014 is as follows:

	2014		2013	
	Number of Shares	Weighted Average Exercise Price Per Share	Number of Shares	Weighted Average Exercise Price Per Share
Outstanding at beginning of year	111,749	$3.38	120,612	$4.31
Granted	31,833	$11.68	19,333	$2.53
Exercised	7,600	$4.78	4,000	$1.34
Canceled			24,196	$7.64
Outstanding at period end	135,982	$5.24	111,749	$3.38
Options exercisable at period end	101,811	$4.52	85,374	$3.86
Weighted average fair value of options granted during the period at fair value		$9.41		$1.72

During the year ended December 31, 2014 the Company recognized approximately $124,000 in stock based compensation expense in its consolidated financial statements relating to the issuance of stock options. The Company recorded approximately $15,000 in stock based compensation expense during the year ended December 31, 2013.

11. 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 years ended December 31, 2014 and 2013 were approximately $107 and $98, respectively.

Additionally, in connection with the completion of the Acquisition, effective June 6, 2014 the Company signed a three year lease with Cohu, Inc. in Poway, CA for the CohuHD Costar business. Rent expense under the agreement for the year ended December 31, 2014 was approximately $275.

Future minimum annual rent payments are approximately as follows:

Year Ending December 31,	
2015	642
2016	673
2017	360
2018	103
Total future minimum lease commitments	1,778

12. 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

The Company's security surveillance product line customers include traditional "large box" national retailers and distributors. The Company's industrial vision product line customers include manufacturers that assemble products using automated production lines; these customers use the Company's video systems to monitor activity on the production line. For the year ended December 31, 2014 and 2013, the Company's two largest customers, Wal-Mart Stores, Inc. and Diebold, Inc., accounted for approximately $15,206 and $16,180, or 42.3% and 61.1% of the Company's total revenue, respectively. Amounts owed by two main customers accounted for $2,148, or 30.3%, and three main customers accounted for $1,219, or 57.0% of the outstanding accounts receivable balance, as of December 31, 2014 and 2013, respectively.

Concentration of Suppliers

For the year ended December 31, 2014 and 2013, the Company made purchases from one main supplier of approximately 21.4% and two main suppliers of approximately 50.6%, respectively. Amounts owed to one main supplier accounted for 40.3% and two main suppliers accounted for 79.2% of the total accounts payable balance, as of December 31, 2014 and 2013, respectively.

13. Sale of Assets (Promissory Note)

During December 2010, the Company entered into an agreement to sell certain assets and liabilities of Sielox, LLC ("Sielox"), an indirect wholly owned subsidiary. One of the agreed conditions of the sale was that Costar would continue to sell its range of security solution products through the Sielox network of approved business partners. The terms and conditions that govern the sale of Costar products are stated in the Master Distribution Agreement (the "Agreement") entered into between Costar and HGW Acquisition Company ("HGW"). The term of the Agreement commences on January 1, 2011, and ended on December 31, 2013. During the term of the Agreement, HGW has agreed to purchase Costar products in the minimum amount of $5,000. Actual purchases were measured against a schedule of semi-annual purchase commitments (the "Purchase Commitment"). In furtherance of the Purchase Commitment, HGW delivered to Costar a secured promissory note with an original principal balance in the amount of $500 and bearing interest on the unpaid balance at a rate equal to 7% per annum. The promissory note is secured by a first priority security interest in HGW's accounts receivable. In the event that HGW fails to purchase Costar products in an amount equal to the Purchase Commitment as of the end of an applicable semi-annual period, HGW will have a period of 30 days to remedy the purchase default. That remedy will be in the form of a payment to Costar, of an amount equal to 25% of the shortfall, plus interest. The balance of the note at December 31, 2014 and December 31, 2013 was approximately $0 and $86, respectively.

Effective January 1, 2014 Costar entered into a new, two year Master Distribution Agreement with Sielox. Sielox will continue to sell Costar's range of security solution products through the Sielox network of approved business partners.