COSTAR TECHNOLOGIES, INC.
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

December 31, 2021 and 2020

COSTAR TECHNOLOGIES, INC. AND SUBSIDIARIES

CONTENTS

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Independent Auditor's Report

Board of Directors
Costar Technologies, Inc.
Coppell, Texas

Opinion

We have audited the consolidated financial statements of Costar Technology Inc. and its' subsidiaries (the Company), which comprise the balance sheets as of December 31, 2021 and 2020, and the statements of operations, changes in stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Substantial Doubt About the Company's Ability to Continue as a Going Concern

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. As discussed in *Note 2* to the consolidated financial statements, the Company has suffered recurring losses from operations, is operating under a forbearance agreement with their lender, and has stated that substantial doubt exists about the Company's ability to continue as a going concern. Management's evaluation of the conditions and events and management's plans regarding these matters are also described in *Note 2*. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that these consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.

- Obtain an understanding of internal control relevant to the audit 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 Company's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

BKD, LLP

Dallas, Texas
March 31, 2022

COSTAR TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(AMOUNTS SHOWN IN THOUSANDS)

	December 31, 2021	December 31, 2020
ASSETS		
Current assets		
Cash and cash equivalents	$ 4	$ 480
Accounts receivable, less allowance for doubtful accounts of $205 and $175, respectively	6,544	8,579
Inventories	15,069	14,225
Prepaid expenses and other current assets	3,562	2,170
Total current assets	25,179	25,454
Non-current assets		
Property and equipment, net	164	533
Deferred financing costs, net		20
Intangible assets, net	5,274	6,411
Goodwill	5,574	5,574
Right of use assets, net	1,214	2,185
Other non-current assets	114	149
Total non-current assets	12,340	14,872
Total assets	$ 37,519	$ 40,326
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 6,935	$ 4,591
Accrued expenses and other current liabilities	3,894	5,141
Line of credit	9,337	13,024
Current maturities of long-term debt, net of unamortized financing fees	2,807	3,592
Current maturities of lease liabilities	732	1,049
Total current liabilities	23,705	27,397
Long-Term liabilities		
Payroll Protection Program loan		3,025
Deferred tax liability	179	116
Non-current maturities of lease liabilities	608	1,340
Total long-term liabilities	787	4,481
Total liabilities	24,492	31,878
Stockholders' Equity		
Preferred stock		
Common stock	3	3
Additional paid-in capital	157,899	157,686
Accumulated deficit	(140,354)	(144,720)
Less common stock held in treasury, at cost	(4,521)	(4,521)
Total stockholders' equity	13,027	8,448
Total liabilities and stockholders' equity	$ 37,519	$ 40,326

See notes to consolidated financial statements.

COSTAR TECHNOLOGIES, INC. AND SUBSIDIARIES

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

	For the Years Ended December 31, 2021	2020
Net revenues	$ 52,924	$ 60,367
Cost of revenues	35,580	40,857
Gross profit	17,344	19,510
Selling, general and administrative expenses	14,512	17,035
Engineering and development expense	3,088	4,333
Restructuring costs		635
Impairment loss		939
	17,600	22,942
Loss from operations	(256)	(3,432)
Other income (expenses)		
Interest expense	(976)	(916)
Other income, net	5,718	1
Total other income (expenses), net	4,742	(915)
Income (loss) before taxes	4,486	(4,347)
Current income tax (benefit) expense	57	(6)
Deferred income tax expense	63	4,630
Net income (loss)	$ 4,366	$ (8,971)
Net income (loss) per share:		
Basic	$ 2.65	$ (5.60)
Diluted	$ 2.64	$ (5.60)
Weighted average shares outstanding:		
Basic	1,650	1,603
Diluted	1,655	1,603

See 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, 2021 and 2020

	Common Stock		Additional Paid-In	Accumulated	Treasury Stock		Total Stockholders'
	Shares	Amount	Capital	Deficit	Shares	Amount	Equity
Balances at December 31, 2019	1,810	$ 3	$ 157,478	$ (135,749)	226	$ (4,521)	$ 17,211
Net loss				(8,971)			(8,971)
Exercise of stock options	15		23				23
Stock based compensation	30		185				185
Balances at December 31, 2020	1,855	$ 3	$ 157,686	$ (144,720)	226	$ (4,521)	$ 8,448
Net income				4,366			4,366
Exercise of stock options	23		35				35
Stock based compensation			178				178
Balances at December 31, 2021	1,878	$ 3	$ 157,899	$ (140,354)	226	$ (4,521)	$ 13,027

See 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,	2021	2020
Cash flows from operating activities		
Net income (loss)	$ 4,366	$ (8,971)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Stock based compensation	178	185
Depreciation and amortization	1,506	1,730
Amortization of deferred financing costs	21	47
Amortization of right of use assets	971	946
Provision for doubtful accounts	30	(221)
Provision for obsolete inventory	759	4,907
Goodwill impairment loss		939
Forgiveness of PPP loan	(3,025)	
Deferred tax expense	63	4,630
Changes in operating assets and liabilities		
Accounts receivable	2,005	698
Inventories	(1,603)	1,064
Prepaid expenses and other current assets	(1,392)	125
Other non-current assets	35	
Accounts payable	2,344	(1,048)
Lease liabilities	(1,049)	(990)
Accrued expenses and other	(1,247)	(738)
Net cash provided by operating activities	3,962	3,303
Cash flows from investing activities		
Purchase of property and equipment		(81)
Net cash used in investing activities		(81)
Cash flows from financing activities		
Payment of contingent purchase price		(1,490)
Repayment of line of credit	(3,687)	(2,929)
Proceeds from PPP loan		3,025
Payment of long-term debt	(786)	(789)
Exercise of stock options	35	23
Proceeds from (repayment of) notes payable, unrelated party		(583)
Net cash used in financing activities	(4,438)	(2,743)
Net change in cash and cash equivalents	(476)	479
Cash and cash equivalents, beginning of period	480	1
Cash and cash equivalents, end of period	$ 4	$ 480
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	$ 986	$ 892
Cash paid during the period for taxes	$ 59	$ 117

See 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") and its wholly owned subsidiaries Innotech Security, Inc. ("Innotech") and Arecont Vision Costar, LLC ("Arecont Vision"), LQ Corporation ("LQ") and CostarHD, LLC (formerly CohuHD Costar, LLC "CostarHD") (collectively the "Company"), develops, designs and distributes a range of security solution products such as surveillance cameras, lenses, digital video recorders, high speed domes and industrial vision products CostarHD is a leading provider of video cameras and related products, specializing in IP video solutions for traffic monitoring, security, surveillance and military applications; and accessories, such as cables, camera mounts, lenses and data storage devices.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") 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 March 31, 2022. Subsequent events have been evaluated through this date.

Going Concern

The Company's financial statements for the years ended December 31, 2021 and December 31, 2020 have been prepared on a going concern basis. The Company entered into a Forbearance Agreement with its bank in January 2021 which was subsequently extended in April 2021, July 2021 and February 2022. See Footnote 6 Lines of Credit and Long-Term Debt for additional information. In addition, economic uncertainties have arisen which have negatively affected the financial position of the Company as a result of COVID-19. The duration of these uncertainties and ultimate financial effects cannot be reasonably estimated at this time. The Company's ability to continue as a going concern is dependent upon its ability to reach a revised agreement with its existing lender or secure other sources of financing and attain profitable operations.

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.

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.

(AMOUNTS SHOWN IN THOUSANDS)

2. Summary of Significant Accounting Policies (continued)

Cash and 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, 2021 and December 31, 2020, the Company had $4 and $480 in cash and cash equivalents, respectively.

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 stated at the lower of average cost or net realizable value. A provision is made to reduce excess or obsolete inventories to their net realizable value. Inventories at December 31, 2021 and December 31, 2020 were comprised of the following:

	December 31, 2021	December 31, 2020
Parts, components, and materials	$ 6,826	$ 5,451
Work-in-process	44	
Finished products	8,199	8,774
Total Inventory	$ 15,069	$ 14,225

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 as follows:

Computer hardware and software	3 years
Furniture and fixtures and demo and network equipment	3 - 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.

2. Summary of Significant Accounting Policies (continued)

Long-Lived Assets (continued)

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 operations 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 a quantitative impairment test.

During the year ending December 31, 2020 the Company performed step one of the impairment test to estimate fair value for CostarHD and Arecont Vision Costar as a result of multi-year declining revenues and profitability and budgetary shortfalls. The income and market approaches were utilized to determine the fair value of the reporting unit based on the prices of comparable businesses and the present value of free cash flows that the business is projected to produce. The fair value of CostarHD exceeded its carrying value and no impairment was recognized. Arecont Vision Costar goodwill was determined to be impaired and an impairment loss of $939 was recognized in the year ended December 31, 2020.

During the year ending December 31, 2021 the Company performed step one of the impairment test to estimate fair value for CostarHD and Innotech as a result of multi-year declining revenues and profitability and budgetary shortfalls. The income and market approaches were utilized to determine the fair value of the reporting unit based on the prices of comparable businesses and the present value of free cash flows that the business is projected to produce. The fair value of CostarHD and Innotech exceeded their respective carrying value and no impairment was recognized.

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. 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.

2. Summary of Significant Accounting Policies (continued)

Revenue Recognition

Revenue is measured as the amount of consideration the Company expects to receive in exchange for transferring distinct goods or providing services to customers. The Company’s revenue consists substantially of product sales and is reported net of sales discounts, rebates, incentives, returns and other allowances offered to customers. The Company recognizes revenue when performance obligations under the terms of contracts with its customers are satisfied, which occurs when control passes to a customer to enable them to direct the use and obtain benefit from the product.

The Company ships and invoices its sales in accordance with signed purchase orders. The satisfaction of the Company’s performance obligation is based upon transfer of control over a product to a customer, which results in sales being recognized upon shipment, in accordance with signed purchase orders, rather than upon delivery for the majority of the Company’s sales. Any software imbedded in the products sold is considered incidental to the product being sold.

Some of the Company’s sales are sold with a right of return and the Company may provide other credits or incentives, which are accounted for as variable consideration when estimating the amount of revenue to recognize. We have elected to apply the portfolio practical expedient. We estimate the variable consideration using the expected value method when calculating the returns reserve because the difference in applying it to the individual contract would not differ materially. Returns are estimated based on historical experience and are required to be established and presented at the gross sales value with an asset established for the estimated value of the merchandise returned separate from the refund liability. At December 31, 2021 and December 31, 2020 liabilities for return allowances of $524 and $1,043 are included in accrued expenses and other current liabilities and $376 and $646 for the estimated value of the merchandise to be returned is included in prepaid expenses and other current assets on the Consolidated Balance Sheets, respectively.

Revenue includes charges for shipping and handling. Shipping and handling costs associated with outbound freight after control over a product has transferred to a customer are accounted for as a fulfillment cost and are included in cost of goods sold.

The Company offers standard net 30 payment terms, but occasionally offers extended terms. The Company provides an assurance-type warranty that guarantees its product complies with agreed-upon specifications. This requires the Company to remedy deficiencies in quality or performance of our products over a specified period of time, generally twelve to thirty-six months, at no cost to our customers. Warranty liabilities are established at the time the revenue is recognized at levels that represent our estimate of the costs that will be incurred to fulfill those warranty requirements. In addition, the Company maintains reserves for returns and post-invoice sales discounts.

Applying the practical expedient, the Company recognizes incremental costs of obtaining contracts as an expense when incurred when the amortization period of the assets that otherwise would have been recognized is one year of less.

(AMOUNTS SHOWN IN THOUSANDS)

2. Summary of Significant Accounting Policies (continued)

Product Warranties

The Company provides limited warranties on certain products for periods up to three years. The Company records an accrued liability and expense for estimated future warranty claims based upon historical experience and management's estimate of the level of future claims. Changes in the estimated amounts recognized in prior years are recorded as an adjustment to the accrued liability and expense (benefit) in the current year. As of December 31, 2021 and December 31, 2020, the accrued warranty liability was approximately $1,214 and $1,839, respectively, and is included in accrued expenses and other current liabilities in the accompanying balance sheets.

Warranty accrual at December 31, 2019	$	2,411
Warranty expenditures		(833)
Warranty expense		261
Warranty accrual at December 31, 2020	$	1,839
Warranty expenditures		(45)
Warranty expense (benefit)		(580)
Warranty accrual at December 31, 2021	$	1,214

Leases

At contract inception the Company determines if an arrangement is a lease. Operating leases are included in right of use assets and current maturities of lease liabilities and non-current maturities of lease liabilities in the Consolidated Balance Sheets. Financing leases are included in property and equipment, net and other current and non-current liabilities in the Consolidated Balance Sheets. The gross amount of balances recorded related to finance leases was immaterial as of December 31, 2021 and December 31, 2020. Operating lease expense is recognized on a straight-line basis over the lease term.

Operating lease assets and liabilities are recognized at the commencement date, based on the present value of the future minimum lease payments. A certain number of these leases contain rent escalation clauses that are factored into the Company's determination of lease payments. As the Company's leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at the lease commencement date to discount payments to the present value. Most operating leases contain renewal options. The exercise of these options is at the Company's discretion. Lease terms include options to extend when it is reasonably certain the Company will exercise that option.

Employee Retention Credit

In the second quarter of 2021 the Company determined eligibility for the Employee Retention Credit ("ERC"). The ERC was created under the CARES Act and modified and extended by the Taxpayer Certainty and Disaster Relief Act of 2020, which was part of the Consolidated Appropriations Act. The ERC was subsequently extended through the third quarter of 2021 by the American Rescue Plan Act of 2021. The estimated refund due of approximately $1,866 is included in other current assets in the Consolidated Balance Sheets at December 31, 2021 and $2,691 is included in other income in the Consolidated Statements of Operations for the year ended December 31, 2021.

Research and Development

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

(AMOUNTS SHOWN IN THOUSANDS)

2. Summary of Significant Accounting Policies (continued)

Restructuring Costs

In the second quarter of 2020 the Company implemented a cost reduction plan and incurred restructuring charges of $635, primarily resulting from severance costs incurred due to a reduction in workforce

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.

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

During the years ended December 31, 2021 and 2020 the Company recognized $178 and $185 in stock based compensation expense in its consolidated financial statements relating to the issuance of stock options and stock awards, respectively (See Note 9).

The fair value of the stock options granted during the years ended December 31, 2021 and 2020 was estimated on the date of grant using the Black-Scholes valuation model based on the following assumptions:

	Years Ended December 31,	
	2021	2020
Expected dividend yield	0.00%	0.00%
Expected stock price volatility	72.36%	69.35%
Risk-free interest rate	1.52%	0.85%
Expected life	10 years	10 years
Weighted-average fair value of options granted	$3.68	$3.99

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

Basic income (loss) per share is computed by dividing income (loss) attributable to common shareholders by the weighted average number of common shares outstanding for the period. Diluted income (loss) per share reflects the dilution of common stock equivalents, such as options, to the extent the impact is dilutive. As the Company incurred a net loss for the year ended December 31, 2020, potentially dilutive securities have been excluded from the diluted net loss per share computation as their effect would be anti-dilutive.

(AMOUNTS SHOWN IN THOUSANDS)

2. Summary of Significant Accounting Policies (continued)

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

The following table reconciles the number of shares utilized in the net loss per share calculations for the years ended December 31, 2021 and 2020:

	Years Ended December 31,			
		2021		2020
Net income (loss)	$	4,366	$	(8,971)
Shares				
Weighted average shares outstanding - basic		1,650		1,603
Weighted average dilutive share equivalents from stock options		5		
Weighted average shares outstanding - diluted		1,655		1,603
Net income (loss) per share - basic	$	2.65	$	(5.60)
Net income (loss) per share - diluted	$	2.64	$	(5.60)

Income Taxes

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

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

In accordance with GAAP, the Company is required to determine whether a tax position is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The Company files an income tax return in the U.S. federal jurisdiction, and may file income tax returns in various U.S. states and foreign jurisdictions. The tax benefit recognized is measured as the largest amount of benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. De-recognition of a tax benefit previously recognized results in the Company recording a tax liability that increases the accumulated deficit. Generally, the Company is no longer subject to income tax examination by major taxing authorities for the years before 2017.

(AMOUNTS SHOWN IN THOUSANDS)

2. Summary of Significant Accounting Policies (continued)

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," "CostarHD" 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 and Arecont Vision Costar), CostarHD and Other. Costar Video Systems' products and services are largely used in retail security applications whereas CostarHD'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, 2021 and 2020 are as follows:

	Years Ended December 31, 2021	2020
Revenues		
Costar Video Systems	$ 41,663	$ 43,161
CostarHD	11,261	17,206
	$ 52,924	$ 60,367
Net Income (Loss)		
Costar Video Systems	$ 4,901	$ (1,252)
CostarHD	(579)	255
Other	44	(7,974)
	$ 4,366	$ (8,971)

Intercompany sales between the CostarHD and Costar Video Systems operating segments were $194 and $572 for the years ending December 31, 2021 and 2020, respectively.

The following table reflects depreciation and intangible amortization expense by business segment for the years ending December 31, 2021 and 2020:

	Years Ended December 31, 2021	2020
Depreciation		
Costar Video Systems	$ 263	$ 290
CostarHD	106	168
	$ 369	$ 458
Amortization		
Costar Video Systems	$ 943	$ 958
CostarHD	194	314
	$ 1,137	$ 1,272

(AMOUNTS SHOWN IN THOUSANDS)

3. Segment Information (continued)

Total assets and goodwill by business segment at December 31, 2021 and 2020 are as follows:

	December 31, 2021	December 31, 2020
Total Assets		
Costar Video Systems	$ 28,491	$ 29,790
CostarHD	8,522	9,068
Other	506	1,468
	$ 37,519	$ 40,326
Goodwill		
Costar Video Systems	$ 3,511	$ 3,511
CostarHD	2,063	2,063
	$ 5,574	$ 5,574

4. Property and Equipment

Property and equipment at December 31, 2021 and December 31, 2020, were as follows:

	December 31, 2021	December 31, 2020
Furniture, equipment and leasehold improvements	$ 2,519	$ 2,519
Less accumulated depreciation	(2,355)	(1,986)
Total property and equipment, net	$ 164	$ 533

Depreciation expense for the years ended December 31, 2021 and 2020 was $369 and $458, respectively.

(AMOUNTS SHOWN IN THOUSANDS)

5. Intangible Assets

The following is a summary of amortized and unamortized intangible assets at December 31, 2021:

	December 31, 2021	
	Gross Amount	Accumulated Amortization
Amortized intangible assets		
Distribution agreement - Southern Imaging	$ 1,468	$ 1,138
Customer relationships - CohuHD	779	600
Trade name - Innotech	1,015	507
Customer relations - Innotech	5,762	3,090
Technology - Innotech	469	335
Patents - Innotech	8	6
Trade name - Arecont Vision Costar	243	84
Distribution agreement - Arecont Vision Costar	370	110
Patents - Arecont Vision Costar	208	103
Total amortized intangible assets	10,322	5,973
Unamortized intangible assets		
Trade name - Costar	800	
Trade name - IVS	125	
Goodwill - CohuHD	2,063	
Goodwill - Innotech	3,511	
Total unamortized intangible assets	6,499	
Total intangible assets	$ 16,821	$ 5,973

(AMOUNTS SHOWN IN THOUSANDS)

5. Intangible Assets (continued)

The following is a summary of amortized and unamortized intangible assets at December 31, 2020:

	December 31, 2020	
	Gross Amount	Accumulated Amortization
Amortized intangible assets		
Distribution agreement - Southern Imaging	$ 1,468	$ 1,064
Trade name - CohuHD	1,657	1,539
Customer relationships - CohuHD	779	524
Trade name - Innotech	1,015	406
Customer relations - Innotech	5,762	2,507
Covenant not to compete - Innotech	150	120
Technology - Innotech	469	268
Patents - Innotech	8	5
Trade name - Arecont Vision Costar	243	60
Distribution agreement - Arecont Vision Costar	370	77
Patents - Arecont Vision Costar	208	73
Total amortized intangible assets	12,129	6,643
Unamortized intangible assets		
Trade name - Costar	800	
Trade name - IVS	125	
Goodwill - CohuHD	2,063	
Goodwill - Innotech	3,511	
Total unamortized intangible assets	6,499	
Total intangible assets	$ 18,628	$ 6,643

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

Trade names, technology and patents	7 and 10 years
Customer relationships	6 and 10 years
Distribution agreements	20 years
Covenants not to compete	3 and 5 years

Amortization expense for the years ended December 31, 2021 and 2020 was $1,137 and $1,272, respectively.

(AMOUNTS SHOWN IN THOUSANDS)

5. Intangible Assets (continued)

Future amortization expense is as follows:

Year Ending December 31,		
2022	$	971
2023		955
2024		835
2025		774
2026		708
Thereafter		106
Total future amortization expense	$	4,349

6. Lines of Credit and Long-Term Debt

In connection with the acquisition of Arecont Vision Costar on July 13, 2018 the Company entered into a Loan Agreement with UMB Bank ("Loan Agreement"). The Loan Agreement allows for up to $18,000 in a revolving line of credit and a $5,500 term loan which originally matured on July 6, 2021. The Loan Agreement, as modified through the third amendment to the Forbearance and Loan Modification agreement on February 9, 2022, extended the maturity to June 15, 2022. The term loan is payable in $66 monthly payments due on the first of the month with the remaining balance due at maturity. The obligations under the Loan Agreement are secured by a lien on substantially all accounts receivable, inventory and equipment.

The Loan Agreement 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 Loan Agreement contains 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. The Company entered into a modification agreement with UMB Bank effective May 1, 2019 which adjusted the borrowing base and covenant compliance requirements and modified interest rates. The Company entered into a second modification agreement with UMB Bank effective March 24, 2020 which adjusted the borrowing base and covenant compliance requirements and modified interest rates. As of December 31, 2020 and December 31, 2021 the Company was not in compliance with its debt covenants with UMB bank. The Company entered into a Forbearance and Loan Modification Agreement with UMB Bank effective January 26, 2021 which further adjusted the borrowing base and covenant compliance and reporting requirements and modified interest rates and was effective through April 15, 2021. The Company entered an amendment of the Forbearance and Loan Modification Agreement on April 15, 2021 which extended the forbearance period through July 14, 2021 and a second amendment on July 12, 2021 which extended the forbearance period through February 18, 2022.

As of December 31, 2021 the Company was paying interest at 7.25% for the term loan and revolving line of credit.

Future principal payments for the term loan as of December 31, 2021, are as follows:

Year Ending December 31,		
2021	$	2,807

6. Lines of Credit and Long-Term Debt (continued)

On June 28, 2019 the Company executed a promissory note with UMB Bank for $1,000 which matured on June 28, 2020. The promissory note was payable in $83 monthly payments due on the first of the month with the remaining balance due at maturity. As of December 31, 2021 and December 31, 2020, the Company owed $0 on the note.

On April 14, 2020 the Company was granted a loan under the U. S Small Business Administration's ("SBA") Paycheck Protection Program ("PPP") for approximately $3,025. Payments on the loan were deferred with the loan maturing in April 2022 with a 1% interest rate. The Company made a policy election to present the entire balance of the PPP loan as long-term on the accompany consolidated balance sheets, as no payments are expected to become due. The Company has elected to account for the funding as a loan in accordance with ASC Topic 470, *Debt*. Interest is accrued in accordance with the loan agreement. The Company received a Notice of Paycheck Protection Program Forgiveness Payment dated June 10, 2021 indicating the full forgiveness of the Company's PPP loan and accrued interest. Approximately $3,060 is included in other income in the Consolidated Statements of Operations for the year ending December 31, 2021 in relation to the PPP loan forgiveness.

As of December 31, 2021 and December 31, 2020, $9,337 and $13,024 was owed to UMB Bank on the revolving line of credit, $2,807 and $3,592 on the term loan, and $0 on the Promissory Note, respectively.

The Company paid approximately $154 in various fees associated with securing the UMB Loan Agreement. The fees were treated as a deferred financing costs asset and were amortized over the life of the agreement using the straight-line method for the revolving line of credit portion and the effective-interest method for the term note portion.

7. Income Taxes (Benefit)

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 materially increase or decrease within the next 12 months.

As of December 31, 2021, the Company's management determined that it was more likely than not that it will not utilize its $15,063 in NOL carryforwards prior to expiration, which occurs in 2022 through 2030. The Company's management also believes that it is more likely than not that it will utilize $186 in tax credit carryforwards. 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.

(AMOUNTS SHOWN IN THOUSANDS)

7. Income Taxes (Benefit) (continued)

The components of income tax (benefit) expense are as follows:

	Years Ended December 31,	
	2021	2020
Current, federal	$	$ (36)
Current, state	57	30
Deferred, federal	41	4,332
Deferred, state	22	298
Income Tax Expense (Benefit)	$ 120	$ 4,624

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

	Years Ended December 31,	
	2021	2020
Income tax benefit at the statutory rate	$ 943	$ (908)
Decrease resulting from:		
State income tax benefit, net of federal tax effect	62	(114)
Change in Valuation Allowance	(798)	5,091
Other	555	530
Permanent items	1	25
PPP loan forgiveness	(643)	
	$ 120	$ 4,624

(AMOUNTS SHOWN IN THOUSANDS)

7. Income Taxes (Benefit) (continued)

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

	Years Ended December 31, 2021	Years Ended December 31, 2020
Deferred tax assets		
Accounts receivable	$ 57	$ 55
Inventory	564	899
Net operating losses	3,534	3,264
Intangibles	162	214
Stock compensation	161	207
Accrued expenses	536	734
Interest	489	329
Lease liability	317	566
Tax credits	520	1,305
	6,340	7,573
Valuation allowance	(6,153)	(6,951)
Net deferred tax assets	$ 187	$ 622
Deferred tax liabilities		
Property and equipment, net	$ 35	$ 114
Prepaid expenses	43	106
Right of use asset	288	518
Net deferred tax liability	366	738
	$ (179)	$ (116)

8. Stockholders' Equity (shown in whole amounts)

At December 31, 2021 and December 31, 2020, 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, 2021 and December 31, 2020, 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, 2021 and December 31, 2020, there were 1,652,431 and 1,629,098 shares of common stock outstanding and 1,878,197 and 1,854,864 shares of common stock issued.

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, 2021 and December 31, 2020, there were 17,000 and 46,000 share options outstanding under this plan.

(AMOUNTS SHOWN IN THOUSANDS)

9. Stock Option Plan (shown in whole amounts)

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 the Company's annual meeting on October 29, 2020, the Company's stockholders approved an additional 150,000 shares under The Plan. As of December 31, 2021 and December 31, 2020 there were 98,000 and 96,000 share options outstanding under this plan, respectively.

The following table summarizes information about stock options outstanding at December 31, 2021:

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
$1.875 - $13.550	115,400	5.42	$8.24	115,400	$8.24

Stock option activity for the years ended December 31, 2021 and 2020 is as follows:

	December 31, 2021		December 31, 2020	
	Number of Shares	Weighted Average Exercise Price Per Share	Number of Shares	Weighted Average Exercise Price Per Share
Outstanding at beginning of year	142,066	$7.90	140,066	$7.83
Granted	20,000	$4.80	24,000	$5.40
Exercised	(23,333)	$1.52	(15,000)	$1.51
Cancelled	(23,333)	$9.96	(7,000)	$11.46
Outstanding at period end	115,400	$8.24	142,066	$7.90
Options exercisable at period end	95,400	$8.24	142,066	$7.90
Weighted average fair value of options granted during the period		$3.68		$3.99

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

On June 20, 2019, a grant of 23,000 restricted stock awards and 7,000 on July 26, 2019 ("2019 Awards") was authorized by the Compensation Committee of the Company's Board of Directors. All of the 2019 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, 2019 and 2020, as stated in the 2019 Awards Agreements. The 25% of the 2019 Awards not subject to performance conditions have a grant date fair value of approximately $63,000, with the expense recognized over the two year vesting period. The 2019 Awards subject to the performance conditions have a grant date fair value of $190,000, with the expense recognized over the two year vesting period based upon the probability of achievement. Stock based compensation expense of approximately $0 and $19,000 was recognized in the Company's financial statements in relation to the 2019 Awards during the years ending December 31, 2021 and December 31, 2020, respectively. As certain performance conditions were not met, 12,750 of the 2019 Awards were forfeited at December 31, 2020.

On October 29, 2020, an additional grant of 33,000 ("2020 Awards") was authorized by the Compensation Committee of the Company's Board of Directors. All of the 2020 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, 2020, December 31, 2021 and December 31, 2022, as stated in the 2020 Awards Agreements. The 25% of the 2020 Awards not subject to performance conditions have a grant date fair value of approximately $45,000, with the expense recognized over the three year vesting period. The 2020 Awards subject to the performance conditions have a grant date fair value of $134,000, with the expense recognized over the three year vesting period based upon the probability of achievement. Stock based compensation expense of approximately $104,000 and $15,000 was recognized in the Company's financial statements in relation to the 2020 Awards during the years ending December 31, 2021 and December 30, 2020, respectively. At December 31, 2021, unrecognized stock based compensation related to unvested awards totaled $59,400 and is expected to be recognized over a weighted average period of 0.6 years.

On April 30, 2020 and July 20, 2020, 8,000 and 1,000 shares were issued to Board members in lieu of fees, which resulted in $48,000 and $9,000 in stock based compensation expense, respectively.

During the years ended December 31, 2021 and 2020 the Company recognized approximately $178,000 and $185,000 in stock based compensation expense in its consolidated financial statements, respectively.

10. Lease Agreements and Related Party Transactions

The Company has entered into the following lease agreements:

Financing Leases

The Company has one financing lease for a forklift used at the Innotech facility in Pompano Beach, Florida which expires in July 2022.

Operating Leases

All of the Company's office and warehouse facilities are leased under operating leases. These leases expire between 2022 and 2025 and certain leases contain renewal options for periods ranging from three to five years. Lease payments have an escalating fee schedule with 3% increases each year. Termination of the leases is generally prohibited unless there is a violation under the lease agreement. The Company has a related party lease with a member of management for its facility in Pompano Beach, FL which terminates on December 31, 2022. Rent expense from the related party lease was $113 for the years ended December 31, 2021 and December 31, 2020, respectively.

(AMOUNTS SHOWN IN THOUSANDS)

10. Lease Agreements and Related Party Transactions (continued)

The Company also leases certain office equipment under operating leases. Lease costs are included within operating expenses in the Consolidated Statements of Operations.

During the years ended December 31, 2021 and December 31, 2020 lease costs included in operating expenses were as follows:

	Year Ended December 31, 2021	Year Ended December 31, 2020
Lease cost		
Finance lease cost		
Amortization of right-of-use asset	$ 2	$ 4
Interest on lease liabilities		
Operating lease cost	1,081	1,091
Total lease cost	$ 1,083	$ 1,095

	Year Ended December 31, 2021	Year Ended December 31, 2020
Other information		
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from finance leases	$ -	$ -
Financing cash flows from finance leases	4	1
Operating cash flows from operating leases	1,155	987
Right of use assets obtained in exchange for new finance lease liabilities		
Right of use assets obtained in exchange for new operating lease liabilities		

The weighted-average remaining lease term and weighted-average discount were as follows:

Lease term and discount rate	December 31, 2021	December 31, 2020
Weighted-average remaining lease term operating leases	2.4 years	2.9 years
Weighted-average discount rate operating leases	5.6%	5.6%
Weighted-average remaining lease term financing lease	0.6 years	1.6 years
Weighted-average discount rate financing lease	5.6%	5.6%

Upon adoption of ASU 2016-02, the discount rate used for existing leases was established as of January 1, 2019.

(AMOUNTS SHOWN IN THOUSANDS)

10. Lease Agreements (continued)

Future minimum lease payments and reconciliation to the Consolidated Balance Sheet at December 31, 2021 are as follows:

Year Ending December 31,		
2022	$	796
2023		343
2024		188
2025		177
2026		
Total lease payments		1,504
Less imputed interest		(164)
Present values of lease liabilities	$	1,340

11. Risk Concentrations

Concentration of Cash

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

Concentration of Customers

For the year ended December 31, 2021 two of the Costar Video Systems operating segment's largest customers accounted for approximately $15,312 or 28.9% of the Company's total revenue. For the year ended December 31, 2020 the Costar Video Systems operating segment's largest customer accounted for $7,082 or 11.8% of the Company's total revenue. Amounts owed by two customers of the Costar Video Systems' operating segment accounted for $1,970 or 30.1% of the Company's outstanding receivable balance as of December 31, 2021. Amounts owed by one customer of the Costar Video Systems' operating segment and one customer of the CostarHD operating segment accounted for $2,381 or 27.8% of the Company's outstanding receivable balance as of December 31, 2020.

Concentration of Suppliers

For the years ended December 31, 2021 and 2020 the Company made purchases from one main supplier of the Costar Video Systems' operating segment of approximately $8,163 or 22.2% and from two main suppliers of the Costar Video Systems' operating segment of $9,109 or 24.8%, respectively. Amounts owed to one main supplier of the Costar Video Systems' operating segment accounted for $2,281 or 32.9% and two main suppliers of the Costar Video Systems' operating segment accounted for $1,263 or 27.5% of the Company's accounts payable balance as of December 31, 2021 and December 31, 2020, respectively.