COSTAR TECHNOLOGIES, INC.
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS AND
INDEPENDENT ACCOUNTANT'S REVIEW REPORT

September 30, 2022

COSTAR TECHNOLOGIES, INC. AND SUBSIDIARIES

CONTENTS

FORVIS

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Independent Accountant's Review Report

Board of Directors
Costar Technologies, Inc.
Coppell, Texas

Results of Review of Interim Financial Information

We have reviewed the consolidated financial statements of Costar Technologies, Inc. and its subsidiaries (collectively, the Company), which comprise the balance sheet as of September 30, 2022, and the related consolidated statements of operations for the three-month and nine-month periods ended September 30, 2022 and 2021, and cash flows for the nine-month periods ended September 30, 2022 and 2021, and the related notes (collectively referred to as the interim financial information).

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

Basis for Review Results

We conducted our review in accordance with auditing standards generally accepted in the United States of America (GAAS) applicable to reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. A review of interim financial information is substantially less in scope than an audit conducted in accordance with GAAS, the objective of which is an expression of an opinion regarding the financial information as a whole, and accordingly, we do not express such an opinion. 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 review. We believe that the results of the review procedures provide a reasonable basis for our conclusion.

Responsibilities of Management for the Interim Financial Information

Management is responsible for the preparation and fair presentation of the financial information in accordance with U.S. GAAP and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of interim financial information that is free from material misstatement, whether due to fraud or error.

Report on Consolidated Balance Sheet as of December 31, 2021

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balances sheet as of December 31, 2021, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the year then ended (not presented herein); and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated March 31, 2022. In our opinion, the accompanying consolidated balance sheet of the Company as of December 31, 2021, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Emphasis of Matter

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. As discussed in *Note 2*, the Company entered into a Forbearance Agreement with its bank in June 2022 which extended the forbearance period through February 2023. Management's plans in regard to these matters are also described in *Note 2*. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our conclusion is not modified with respect to this matter.

FORVIS, LLP

Dallas, Texas
November 14, 2022

COSTAR TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(AMOUNTS SHOWN IN THOUSANDS)

	September 30, 2022 (Reviewed)	December 31, 2021 (Audited)
ASSETS		
Current assets		
Cash and cash equivalents	$ 1	$ 4
Accounts receivable, less allowance for doubtful accounts of $287 and $205, respectively	9,629	6,544
Inventories	17,517	15,069
Prepaid expenses and other current assets	2,774	3,562
Total current assets	29,921	25,179
Non-current assets		
Property and equipment, net	65	164
Intangible assets, net	4,546	5,274
Goodwill	5,574	5,574
Right of use assets, net	899	1,214
Other non-current assets	117	114
Total non-current assets	11,201	12,340
Total assets	$ 41,122	$ 37,519
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 6,264	$ 6,935
Accrued expenses and other current liabilities	3,543	3,894
Line of credit	15,000	9,337
Current maturities of long-term debt, net of unamortized financing fees	2,216	2,807
Current maturities of lease liabilities	513	732
Total current liabilities	27,536	23,705
Long-Term liabilities		
Deferred tax liability	179	179
Non-current maturities of lease liabilities	464	608
Total long-term liabilities	643	787
Total liabilities	28,179	24,492
Stockholders' Equity		
Preferred stock		
Common stock	3	3
Additional paid-in capital	158,004	157,899
Accumulated deficit	(140,543)	(140,354)
Less common stock held in treasury, at cost	(4,521)	(4,521)
Total stockholders' equity	12,943	13,027
Total liabilities and stockholders' equity	$ 41,122	$ 37,519

See notes to consolidated financial statements.

COSTAR TECHNOLOGIES, INC. AND SUBSIDIARIES

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

	Three Months Ended September 30, 2022 (Reviewed)	Three Months Ended September 30, 2021 (Reviewed)	Nine Months Ended September 30, 2022 (Reviewed)	Nine Months Ended September 30, 2021 (Reviewed)
Net revenues	$ 16,365	$ 12,646	$ 41,547	$ 38,145
Cost of revenues	11,067	8,789	28,080	25,479
Gross profit	5,298	3,857	13,467	12,666
Selling, general and administrative expenses	3,819	3,413	11,314	10,778
Engineering and development expense	471	739	1,558	2,357
	4,290	4,152	12,872	13,135
Income (Loss) from operations	1,008	(295)	595	(469)
Other income (expenses)				
Interest expense	(336)	(240)	(809)	(740)
Other income, net	1	883	48	5,687
Total other income (expenses), net	(335)	643	(761)	4,947
Income (Loss) before taxes	673	348	(166)	4,478
Income tax provision (benefit)	8	(16)	23	51
Net income (loss)	$ 665	$ 364	$ (189)	$ 4,427
Net income (loss) per share:				
Basic	$ 0.40	$ 0.22	$ (0.11)	$ 2.68
Diluted	$ 0.40	$ 0.22	$ (0.11)	$ 2.68
Weighted average shares outstanding:				
Basic	1,654	1,652	1,653	1,649
Diluted	1,674	1,655	1,653	1,652

See notes to consolidated financial statements.

COSTAR TECHNOLOGIES, INC. AND SUBSIDIARIES

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

For the Nine Months Ended September 30, 2022 and 2021

	Common Stock		Additional Paid-In	Accumulated	Treasury Stock		Total Stockholders'
	Shares	Amount	Capital	Deficit	Shares	Amount	Equity
Balances at December 31, 2020 (audited)	1,855	$ 3	$ 157,686	$ (144,720)	226	$ (4,521)	$ 8,448
Net income				4,427			4,427
Exercise of stock options	23		35				35
Stock based compensation			54				54
Balances at September 30, 2021 (reviewed)	1,878	$ 3	$ 157,775	$ (140,293)	226	$ (4,521)	$ 12,964
Balances at December 31, 2021 (audited)	1,878	$ 3	$ 157,899	$ (140,354)	226	$ (4,521)	$ 13,027
Net loss				(189)			(189)
Exercise of stock options	1		3				3
Stock based compensation			102				102
Balances at September 30, 2022 (reviewed)	1,879	$ 3	$ 158,004	$ (140,543)	226	$ (4,521)	$ 12,943

See notes to consolidated financial statements.

COSTAR TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(AMOUNTS SHOWN IN THOUSANDS)

For the Nine Months Ended September 30,	2022 (Reviewed)	2021 (Reviewed)
Cash flows from operating activities		
Net income (loss)	$ (189)	$ 4,427
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Gain on asset disposal	(15)	
Stock based compensation	102	54
Depreciation and amortization	826	1,177
Amortization of deferred financing costs	1	21
Amortization of right of use assets	580	724
Provision for doubtful accounts	82	42
Provision for obsolete inventory	595	580
Forgiveness of PPP loan		(3,025)
Changes in operating assets and liabilities		
Accounts receivable	(3,167)	1,956
Inventories	(3,043)	(244)
Prepaid expenses and other current assets	788	(1,659)
Other non-current assets	(3)	40
Accounts payable	(671)	1,613
Lease liabilities	(628)	(782)
Accrued expenses and other	(351)	(1,322)
Net cash (used in) provided by operating activities	(5,093)	3,602
Cash flows from investing activities		
Proceeds from the sale of property and equipment	15	
Net cash provided by investing activities	15	
Cash flows from financing activities		
Proceeds from (Repayment of) line of credit	5,663	(3,522)
Payment of long-term debt	(591)	(590)
Exercise of stock options	3	35
Net cash provided by (used in) financing activities	5,075	(4,077)
Net change in cash and cash equivalents	(3)	(475)
Cash and cash equivalents, beginning of period	4	480
Cash and cash equivalents, end of period	$ 1	$ 5
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	$ 785	$ 750
Cash paid during the period for taxes	$ 37	$ 57
Right of use assets obtained in exchange for operating lease liabilities	$ 265	$

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 November 14, 2022. Subsequent events have been evaluated through this date.

Going Concern

The Company's financial statements for the quarter ended September 30, 2022 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, February 2022 and June 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 the COVID-19 pandemic. 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 September 30, 2022 and December 31, 2021, the Company had $1 and $4 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 September 30, 2022 and December 31, 2021 were comprised of the following:

	September 30, 2022	December 31, 2021
Parts, components, and materials	$ 7,838	$ 6,826
Work-in-process	288	44
Finished products	9,391	8,199
Total Inventory	$ 17,517	$ 15,069

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, 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. There were no impairments recognized during the three and nine month periods ended September 30, 2022 and 2021.

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.

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.

(AMOUNTS SHOWN IN THOUSANDS)

2. Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

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 September 30, 2022 and December 31, 2021, liabilities for return allowances of $218 and $524 are included in accrued expenses and other current liabilities and $148 and $376 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.

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 September 30, 2022 and December 31, 2021, the accrued warranty liability was approximately $798 and $1,214, respectively, and is included in accrued expenses and other current liabilities in the accompanying balance sheets.

Warranty accrual at December 31, 2021	$	1,214	Warranty accrual at December 31, 2020	$	1,839
Warranty expenditures		(219)	Warranty expenditures		(29)
Warranty expense (benefit)		(197)	Warranty expense (benefit)		(481)
Warranty accrual at September 30, 2022	$	798	Warranty accrual at September 30, 2021	$	1,329

2. Summary of Significant Accounting Policies (continued)

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 September 30, 2022 and December 31, 2021. 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 $1,835 and $1,866 is included in other current assets in the Consolidated Balance Sheets at September 30, 2022 and December 31, 2021, respectively, and $29 and $2,684 is included in other income for the nine months ended September 30, 2022 and September 30, 2021, respectively.

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.

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 nine month periods ended September 30, 2022 and 2021 the Company recognized $102 and $54 in stock based compensation expense in its consolidated financial statements relating to the issuance of stock options and stock awards, respectively (See Note 9).

(AMOUNTS SHOWN IN THOUSANDS)

2. Summary of Significant Accounting Policies (continued)

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

The fair value of the stock options granted during the nine month period ended September 30, 2022 was estimated on the grant date using the Black-Scholes method based on the following assumptions:

	Nine Months Ended September 30, 2022
Expected dividend yield	0.00%
Expected stock price volatility	72.55%
Risk-free interest rate	3.72%
Expected life	10 years
Weighted-average fair value of options granted	$3.42

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 nine month period ended September 30, 2022, potentially dilutive securities have been excluded from the diluted net loss per share computation as their effect would be anti-dilutive.

The following table reconciles the number of shares utilized in the net income (loss) per share calculations for the three and nine month periods ended September 30, 2022 and 2021:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net income (loss)	$ 665	$ 364	$ (189)	$ 4,427
Shares				
Weighted average shares outstanding - basic	1,654	1,652	1,653	1,649
Weighted average dilutive share equivalents from stock options	20	3		3
Weighted average shares outstanding - diluted	1,674	1,655	1,653	1,652
Net income (loss) per share - basic	$ 0.40	$ 0.22	$ (0.11)	$ 2.68
Net income (loss) per share - diluted	$ 0.40	$ 0.22	$ (0.11)	$ 2.68

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.

(AMOUNTS SHOWN IN THOUSANDS)

2. Summary of Significant Accounting Policies (continued)

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 2018.

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 three and nine month periods ending September 30, 2022 and 2021 are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Revenues				
Costar Video Systems	$ 11,007	$ 10,200	$ 31,154	$ 30,417
CostarHD	5,358	2,446	10,393	7,728
	$ 16,365	$ 12,646	$ 41,547	$ 38,145
Net Income (Loss)				
Costar Video Systems	$ 1,294	$ 1,129	$ 3,196	$ 3,886
CostarHD	272	(270)	(800)	(412)
Other	(901)	(495)	(2,585)	953
	$ 665	$ 364	$ (189)	$ 4,427

(AMOUNTS SHOWN IN THOUSANDS)

3. Segment Information (continued)

Intercompany sales between the CostarHD and Costar Video Systems operating segments were $20 and $0 and $84 and $0 for the three and nine month periods ending September 30, 2022 and 2021, respectively.

The following table reflects depreciation and intangible amortization expense by business segment for the three and nine month periods ending September 30, 2022 and 2021:

	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
Depreciation				
Costar Video Systems	$ 12	$ 63	$ 77	$ 208
CostarHD	5	24	21	87
	$ 17	$ 87	$ 98	$ 295
Amortization				
Costar Video Systems	$ 224	$ 235	$ 673	$ 707
CostarHD	19	19	55	175
	$ 243	$ 254	$ 728	$ 882

Total assets and goodwill by business segment at September 30, 2022 and December 31, 2021 are as follows:

	September 30, 2022	December 31, 2021
Total Assets		
Costar Video Systems	$ 28,883	$ 28,491
CostarHD	11,923	8,522
Other	316	506
	$ 41,122	$ 37,519
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 September 30, 2022 and December 31, 2021, were as follows:

	September 30, 2022	December 31, 2021
Furniture, equipment and leasehold improvements	$ 2,181	$ 2,519
Less accumulated depreciation	(2,116)	(2,355)
Total property and equipment, net	$ 65	$ 164

(AMOUNTS SHOWN IN THOUSANDS)

4. Property and Equipment (continued)

Depreciation expense for three month periods ending September 30, 2022 and 2021 was $17 and $87, respectively, and for the nine month periods ending September 30, 2022 and 2021 was $98 and $295, respectively.

5. Intangible Assets

The following is a summary of amortized and unamortized intangible assets at September 30, 2022:

	September 30, 2022	
	Gross Amount	Accumulated Amortization
Amortized intangible assets		
Distribution agreement - Southern Imaging	$ 1,468	$ 1,193
Customer relationships - CostarHD	779	655
Trade name - Innotech	1,015	583
Customer relations - Innotech	5,762	3,514
Technology - Innotech	469	385
Patents - Innotech	8	7
Trade name - Arecont Vision Costar	243	102
Distribution agreement - Arecont Vision Costar	370	137
Patents - Arecont Vision Costar	208	125
Total amortized intangible assets	10,322	6,701
Unamortized intangible assets		
Trade name - Costar	800	
Trade name - IVS	125	
Goodwill - CostarHD	2,063	
Goodwill - Innotech	3,511	
Total unamortized intangible assets	6,499	
Total intangible assets	$ 16,821	$ 6,701

(AMOUNTS SHOWN IN THOUSANDS)

5. Intangible Assets (continued)

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 - CostarHD	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 - CostarHD	2,063	
Goodwill - Innotech	3,511	
Total unamortized intangible assets	6,499	
Total intangible assets	$ 16,821	$ 5,973

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 three month periods ended September 30, 2022 and 2021 was $243 and $254, respectively, and for the nine month periods ending September 30, 2022 and 2021 was $728 and $882, respectively.

(AMOUNTS SHOWN IN THOUSANDS)

5. Intangible Assets (continued)

Future amortization expense is as follows:

Year Ending September 30,		
2023	$	959
2024		874
2025		784
2026		730
2027		219
Thereafter		55
Total future amortization expense	$	3,621

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 fourth amendment to the Forbearance and Loan Modification agreement on June 10, 2022, extended the maturity to March 1, 2023. 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 June 30, 2022 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, a second amendment on July 12, 2021 which extended the forbearance period through February 18, 2022, the third amendment on February 9, 2022 which extended the forbearance period through June 15, 2022 and a fourth amendment on June 10, 2022 which extended the forbearance period through March 1, 2023.

As of September 30, 2022 the Company was paying interest at the Prime Rate plus 3% per annum, or 8.50%, for the term loan and revolving line of credit.

(AMOUNTS SHOWN IN THOUSANDS)

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

Future principal payments for the term loan as of September 30, 2022, are as follows:

Year Ending September 30,	
2023	$ 2,216

As of September 30, 2022 and December 31, 2021, $15,000 and $9,337 was owed to UMB Bank on the revolving line of credit, $2,216 and $2,807 on the term loan, 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

Total income tax expense (benefit) for the three month periods ended September 30, 2022 and 2021 was $8 and ($16), respectively, and $23 and $51 for the nine month periods ended September 30, 2022 and 2021, respectively. The Company's effective tax rate differs from the U.S. federal statutory rate due primarily to changes to the deferred income tax asset valuation allowance and state income and franchise taxes.

8. Stockholders' Equity (shown in whole amounts)

At September 30, 2022 and December 31, 2021, the authorized capital stock of the Company consisted of (i) 10,000,000 shares of voting common stock with a par value of $0.001 per share and (ii) 10,000,000 shares of preferred stock with a par value of $0.001 per share. As of September 30, 2022 and December 31, 2021, there was no preferred stock issued and outstanding. The Company's Board has the authority to determine the voting powers, designations, preferences, privileges and restrictions of the preferred shares. As of September 30, 2022 and December 31, 2021, there were 1,653,831 and 1,652,431 shares of common stock outstanding and 1,879,597 and 1,878,197 shares of common stock issued.

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.

The Company's 2000 Stock Option and Incentive Plan (the "2000 Incentive Plan") provides for awards in the form of incentive stock options, non-qualified stock options, restricted stock awards and other forms of awards to officers, directors, employees and consultants of the Company. At September 30, 2022 and December 31, 2021, there were 15,000 and 17,000 options outstanding under this plan.

(AMOUNTS SHOWN IN THOUSANDS)

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

At the Company's annual meeting on December 16, 2014, the Company's stockholders approved and adopted the Company's 2014 Omnibus Performance Award Plan (the "Plan"). The Board adopted the Plan on November 17, 2014, subject to and effective upon its approval by stockholders. With the adoption of the Plan, no new awards will be granted under the 2000 Incentive Plan, although it will remain in effect for options that are currently outstanding in accordance with their terms. The Plan authorizes the grant of awards relating to 150,000 shares of the Company's common stock. At the Company's annual meeting on October 29, 2020, the Company's stockholders approved an additional 150,000 shares under The Plan. As of September 30, 2022 and December 31, 2021 there were 118,000 share options outstanding under this plan, respectively.

The following table summarizes information about stock options outstanding at September 30, 2022:

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
$2.100 - $13.550	133,000	6.77	$7.76	133,000	$7.76

Stock option activity for the nine month periods ended September 30, 2022 and 2021 is as follows:

	September 30, 2022		September 30, 2021	
	Number of Shares	Weighted Average Exercise Price Per Share	Number of Shares	Weighted Average Exercise Price Per Share
Outstanding at beginning of year	115,400	$8.24	142,066	$9.16
Granted	20,000	$4.31		
Exercised	(1,400)	$3.75	(23,333)	$1.52
Cancelled	(1,000)	$2.49	(23,333)	$9.96
Outstanding at period end	133,000	$7.76	95,400	$8.96
Options exercisable at period end	133,000	$7.76	95,400	$8.96

On October 29, 2020, a grant of 33,000 restricted stock awards ("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 $33,000 and $54,000 was recognized in the Company's financial statements in relation to the 2020 Awards during the nine month periods ending September 30, 2022 and September 30, 2021, respectively. At September 30, 2022, unrecognized stock based compensation related to unvested awards totaled $26,000 and is expected to be recognized over a weighted average period of 0.3 years.

(AMOUNTS SHOWN IN THOUSANDS)

10. Lease Agreements and Related Party Transactions

The Company has entered into the following lease agreements:

Financing Leases

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

Operating Leases

All of the Company's office and warehouse facilities are leased under operating leases. These leases expire between 2023 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. The lease was subsequently amended to extend through December 31, 2025 in October 2022. Rent expense from the related party lease was $28 and $85 for the three and nine month periods ended September 30, 2022 and September 30, 2021, respectively.

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 three and nine month periods ended September 30, 2022 and September 30, 2021 lease costs included in operating expenses were as follows:

	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
Lease cost				
Finance lease cost				
Amortization of right-of-use asset	$ -	$ -	$ 2	$ 2
Interest on lease liabilities				
Operating lease cost	182	270	641	811
Total lease cost	$ 182	$ 270	$ 643	$ 813

	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
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	-	1	2	3
Operating cash flows from operating leases	194	289	685	866
Right of use assets obtained in exchange for new finance lease liabilities				
Right of use assets obtained in exchange for new operating lease liabilities	-		265	

(AMOUNTS SHOWN IN THOUSANDS)

10. Lease Agreements and Related Party Transactions (continued)

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

	September 30, 2022	September 30, 2021
Lease term and discount rate		
Weighted-average remaining lease term operating leases	2.3 years	2.5 years
Weighted-average discount rate operating leases	5.9%	5.6%
Weighted-average remaining lease term financing lease		0.8 years
Weighted-average discount rate financing lease		5.6%

Future minimum lease payments and reconciliation to the Consolidated Balance Sheet at September 30, 2022 are as follows:

Year Ending September 30,		
2023	$	563
2024		287
2025		218
2026		33
Total lease payments		1,101
Less imputed interest		(124)
Present values of lease liabilities	$	977

11. Risk Concentrations

Concentration of Cash

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

Concentration of Customers

For the nine month period ended September 30, 2022 one of the Costar Video Systems' operating segment's largest customers accounted for approximately $5,666 or 13.7% of the Company's total revenue. For the nine month period ended September 30, 2021 two of the Costar Video Systems' operating segment's largest customers account for $10,704 or 28.1% of the Company's total revenue. Amounts owed by one customer of the Costar Video Systems' operating segment accounted for $2,561 or 26.6% of the Company's outstanding receivable balance as of September 30, 2022. 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.

11. Risk Concentrations (continued)

Concentration of Suppliers

For the nine month periods ended September 30, 2022 and 2021 the Company made purchases from two main suppliers of the Costar Video Systems' operating segment of approximately $11,954 or 36.4% and from one main supplier of the Costar Video Systems' operating segment of $5,780 or 22.4%, respectively. Amounts owed to two main suppliers of the Costar Video Systems' operating segment accounted for $2,911 or 46.5% and one main supplier of the Costar Video Systems' operating segment accounted for $2,281 or 32.9% of the Company's accounts payable balance as of September 30, 2022 and December 31, 2021, respectively.