



Independent Auditor's Review Report

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

Report on the Financial Statements

We have reviewed the accompanying consolidated balance sheet of Costar Technologies, Inc. and subsidiaries as of March 31, 2015, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the three-month period then ended. The consolidated statements of income, changes in stockholders' equity and cash flows of Costar Technologies, Inc. and subsidiaries for the three-month period ended March 31, 2014, were compiled by other accountants whose report dated May 14, 2014, did not express an opinion or provide any assurance on those statements. The accompanying consolidated statements of income, changes in stockholders' equity and cash flows of Costar Technologies, Inc. and subsidiaries for the three-month period ended March 31, 2014 were not reviewed by us, and accordingly, we do not express any form of assurance on those statements. The consolidated balance sheet of the Company as of December 31, 2014, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the year then ended (not presented herein), were audited by McGladrey LLP whose report dated May 8, 2015, stated that the consolidated financial statement presented fairly, in all material respects, the financial position as of December 31, 2014, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generically accepted in the United States of America.

Management's Responsibility

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

Auditor's Responsibility

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

Conclusion

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

McGladrey LLP

Dallas, Texas
May 18, 2015

COSTAR TECHNOLOGIES, INC. AND SUBSIDIARIES

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COSTAR TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (AMOUNTS SHOWN IN THOUSANDS)

	March 31, 2015 (Reviewed)	December 31, 2014 (Audited)
ASSETS		
Current assets		
Cash	\$ 620	\$
Accounts receivable, less allowance for doubtful accounts of \$70 and \$75 in 2015 and 2014, respectively	5,070	7,086
Inventories, net of reserve for obsolescence of \$379 in 2015 and 2014	7,714	7,629
Prepaid expenses	345	307
Deferred tax asset - current	392	408
Total current assets	14,141	15,430
Non-current assets		
Property and equipment, net	407	397
Deferred financing costs, net	82	97
Deferred tax asset, non-current	7,280	7,280
Trade names, net	2,405	2,464
Distribution agreement, net	826	844
Customer relationships, net	774	799
Covenant not to compete, net	17	18
Goodwill	2,063	2,063
Total assets	\$ 27,995	\$ 29,392
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 2,385	\$ 3,499
Accrued expenses and other	1,234	1,899
Line of credit	1,134	519
Short-term debt	600	600
Contingent purchase price		128
Total current liabilities	5,353	6,645
Long-Term liabilities		
Long-term debt	1,950	2,100
Total long-term liabilities	1,950	2,100
Total liabilities	7,303	8,745
Stockholders' Equity		
Preferred stock		
Common stock	3	3
Additional paid in capital	156,089	156,073
Accumulated deficit	(130,879)	(130,908)
Less common stock held in treasury, at cost	(4,521)	(4,521)
Total stockholders' equity	20,692	20,647
Total liabilities and stockholders' equity	\$ 27,995	\$ 29,392

COSTAR TECHNOLOGIES, INC. AND SUBSIDIARIES

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

	For the Three Months Ended March 31,	
	2015 (Reviewed)	2014 (Compiled)
Net revenues	\$ 8,099	\$ 8,307
Cost of revenues	<u>4,880</u>	<u>5,568</u>
Gross profit	3,219	2,739
Selling, general and administrative expenses	2,368	1,560
Engineering and development expense	761	56
Transaction and related expense	<u>3,129</u>	<u>39</u>
Income from operations	<u>90</u>	<u>1,084</u>
Other income (expenses)		
Interest expense	(44)	(1)
Other income and expense, net	<u>1</u>	<u>2</u>
Total other income (expenses), net	<u>(43)</u>	<u>1</u>
Income before taxes	47	1,085
Income tax provision	<u>18</u>	<u>13</u>
Net income	<u>\$ 29</u>	<u>\$ 1,072</u>
<u>Net income per share:</u>		
Basic	\$ 0.02	\$ 0.74
Diluted	\$ 0.02	\$ 0.70
Weighted average shares outstanding		
Basic	1,466	1,458
Diluted	1,550	1,532

COSTAR TECHNOLOGIES, INC. AND SUBSIDIARIES

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

For the Three Months Ended March 31, 2015 and 2014

	Common Stock		Additional Paid - In Capital	Treasury Stock		Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount		Shares	Amount		
Balances at December 31, 2013 (reviewed)	1,684	\$ 3	\$ 155,912	226	\$ (4,521)	\$ (141,422)	\$ 9,972
Net income						1,072	1,072
Stock based compensation				2			2
Balances at March 31, 2014 (compiled)	1,684	\$ 3	\$ 155,914	226	\$ (4,521)	\$ (140,350)	\$ 11,046
Balances at December 31, 2014 (audited)	1,692	\$ 3	\$ 156,073	226	\$ (4,521)	\$ (130,908)	\$ 20,647
Net income						29	29
Stock based compensation				16			16
Balances at March 31, 2015 (reviewed)	1,692	\$ 3	\$ 156,089	226	\$ (4,521)	\$ (130,879)	\$ 20,692

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

COSTAR TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (AMOUNTS SHOWN IN THOUSANDS)

For the Three Months Ended March 31,	2015 (Reviewed)	2014 (Compiled)
Cash flows from operating activities		
Net income	\$ 29	\$ 1,072
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock based compensation	16	2
Depreciation and amortization	109	36
Amortization of deferred financing costs	15	
Provision for doubtful accounts	(5)	8
Deferred tax asset	16	
Changes in operating assets and liabilities		
Accounts receivable, net	2,021	(572)
Inventories, net	(85)	2,587
Promissory note		86
Prepaid expenses	(38)	(117)
Accounts payable	(1,114)	(1,784)
Accrued expenses and other	(665)	(273)
Net cash provided by operating activities	299	1,045
Cash flows from investing activities		
Purchase of property and equipment	(16)	(2)
Net cash used in investing activities	(16)	(2)
Cash flows from financing activities		
Contingent purchase price	(128)	
Proceeds on lines of credit, net	615	
Payments toward term debt	(150)	
Net cash provided by financing activities	337	-
Net increase in cash	620	1,043
Cash, beginning of period		1,637
Cash, end of period	\$ 620	\$ 2,680
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	\$ 29	\$ 1
Cash paid during the period for taxes	\$ 146	\$ 13

COSTAR TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (SEE INDEPENDENT AUDITOR'S REPORT) (AMOUNTS SHOWN IN THOUSANDS)

1. Nature of operations

Costar Technologies, Inc. ("Costar Technologies") was incorporated in the State of Delaware in February 1997 under the name "Fairmarket, Inc.". Costar Technologies, and its wholly owned subsidiaries, Costar Video Systems, LLC ("Costar") and LQ Corporation ("LQ") (collectively the "Company"), develops, designs and distributes a range of security solution products such as surveillance cameras, lenses, digital video recorders and high speed domes. The Company also develops, designs and distributes industrial vision products to observe repetitive production and assembly lines, thereby increasing efficiency by detecting faults in the production process.

Effective June 6, 2014, the Company and its newly formed, wholly owned subsidiary, Sirius Acquisition, LLC purchased CohuHD, the camera products and video solutions division of Cohu, Inc. On June 13, 2014, the name of Sirius Acquisition, LLC was changed to CohuHD Costar, LLC ("CohuHD Costar"). CohuHD Costar is a leading provider of video cameras and related products, specializing in IP video solutions for traffic monitoring, security, surveillance and military applications; and accessories such as cables, camera mounts, lenses and data storage devices (See Note 3).

2. Summary of significant accounting policies

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and include the accounts of Costar Technologies and its wholly owned subsidiaries. All material intercompany transactions have been eliminated in consolidation.

These consolidated financial statements were approved by management and available for issuance on May 18, 2015. Subsequent events have been evaluated through this date.

Use of Estimates

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

Cash Equivalents

The Company considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. As of March 31, 2015 and December 31, 2014, the Company had no such cash equivalents.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are recorded at net realizable values. The Company maintains an allowance for estimated losses resulting from the failure of customers to make required payments and for anticipated returns. The allowance is based on specific facts and circumstances surrounding individual customers as well as historical experience. Provisions for losses on receivables and returns are charged to income to maintain the allowance at a level considered adequate to cover losses and future returns. Receivables are charged off against the reserve when they are deemed uncollectible and returns are charged off against the reserve when the actual returns are incurred. Customer receivable balances are not collateralized.

COSTAR TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (SEE INDEPENDENT AUDITOR'S REPORT) (AMOUNTS SHOWN IN THOUSANDS)

2. Summary of significant accounting policies (continued)

Inventories

Inventories are recorded on the first in first out basis and are stated at the lower of average cost, standard cost, or market. A provision is made to reduce excess or obsolete inventories to their net realizable value. The reserve for inventory obsolescence was \$379 as of March 31, 2015 and December 31, 2014.

	<u>2015</u>	<u>2014</u>
Parts, components, and materials	\$ 2,119	\$ 1,817
Work-in-process	776	714
Finished products	<u>4,819</u>	<u>5,098</u>
Total Inventory	<u>\$ 7,714</u>	<u>\$ 7,629</u>

Property and Equipment

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

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

Long-Lived Assets

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

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

Goodwill

Goodwill is tested annually for impairment, or sooner when circumstances indicate an impairment may exist. The Company has elected to first perform a qualitative assessment, based on the entity's events and circumstances, to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The results of this qualitative assessment determine whether it is necessary to perform the two-step impairment test. No indicators warranting reevaluation arose during the three months ended March 31, 2015 and the year ended December 31, 2014.

COSTAR TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (SEE INDEPENDENT AUDITOR'S REPORT) (AMOUNTS SHOWN IN THOUSANDS)

2. Summary of significant accounting policies (continued)

Fair Value Measurements

During the second quarter of 2014, the Company adopted FASB ASC 820, Fair Value Measurements and Disclosures, which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. This accounting standard does not require any new fair value measurements. The Company applies fair value accounting for all financial assets and liabilities and non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. The Company defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities, which are required to be recorded at fair value, the Company considers the principal or most advantageous market in which the Company would transact and the market-based risk measurements or assumptions that market participants would use in pricing the asset or liability, such as inherent risk, transfer restrictions and credit risk. (See Note 4)

Revenue Recognition

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

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), to supersede nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity is expected to be entitled for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than required under existing U.S. GAAP, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each performance obligation. ASU 2014-09 is effective for the Company in the first quarter of fiscal year 2017 using either of two methods: (a) retrospective to each prior reporting period presented with the option to elect certain practical expedients as defined within ASU 2014-09; or (b) retrospective with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application and providing certain additional disclosures as defined in ASU 2014-09. The Company has not yet selected a transition method and is currently evaluating the impact of the pending adoption of ASU 2014-09 on the consolidated financial statements.

Research and Development

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

Reclassification of Certain Expenses

Certain expenses on the statement of income for the three months ended March 31, 2014, have been reclassified, with no effect on net income (or earnings per common share), to be consistent with the classifications adopted for the three months ended March 31, 2015.

COSTAR TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (SEE INDEPENDENT AUDITOR'S REPORT) (AMOUNTS SHOWN IN THOUSANDS)

2. Summary of significant accounting policies (continued)

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

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

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

During the three months ended March 31, 2015 the Company recognized \$16 in stock based compensation expense in its consolidated financial statements relating to the issuance of stock options. The Company recorded \$2 in stock based compensation expense during the three months ended March 31, 2014 relating to the issuance of stock options.

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

Basic income per share is computed by dividing income attributable to common shareholders by the weighted average number of common shares outstanding for the period. Diluted income per share reflects the dilution of common stock equivalents such as options to the extent the impact is dilutive. As the Company incurred net income for the three months ended March 31, 2015 and 2014, potentially dilutive securities have been included in the diluted net income per share computations and any potentially anti-dilutive shares have been excluded and are shown below.

The following table reconciles the number of shares utilized in the net income per share calculations for the three months ended March 31, 2015 and 2014:

	Three Months Ended March 31,	
	2015	2014
Net income	\$ 29	\$ 1,072
Shares		
Weighted average shares outstanding - basic	1,466	1,458
Weighted average dilutive share equivalents from stock options	84	74
Weighted average shares outstanding - diluted	1,550	1,532
Net income per share - basic	\$ 0.02	\$ 0.74
Net income per share - diluted	\$ 0.02	\$ 0.70

The number of potentially dilutive shares from stock options excluded from the diluted net income per share calculation as of March 31, 2015 and 2014 was 3 and 14, respectively.

COSTAR TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (SEE INDEPENDENT AUDITOR'S REPORT) (AMOUNTS SHOWN IN THOUSANDS)

2. Summary of significant accounting policies (continued)

Income Taxes

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

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

In accordance with GAAP, the Company is required to determine whether a tax position is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The Company files an income tax return in the U.S. federal jurisdiction, and may file income tax returns in various U.S. states and foreign jurisdictions. The tax benefit recognized is measured as the largest amount of benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. De-recognition of a tax benefit previously recognized results in the Company recording a tax liability that increases the accumulated deficit. Generally, the Company is no longer subject to income tax examination by major taxing authorities for the years before 2011.

3. Acquisition

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

CohuHD Costar is a leading provider of video cameras and related products, specializing in IP video solutions for traffic monitoring, security, surveillance and military applications; and accessories such as cables, camera mounts, lenses and data storage devices. Total consideration for the Acquisition was approximately \$10,315, consisting of a cash payment of \$9,886 (including an estimated working capital adjustment of \$386) less a final working capital adjustment of \$41 and deferred consideration of up to \$500 in cash, contingent upon CohuHD Costar shipping and receiving payment for specified purchase orders within twelve months of close, for which the fair value was estimated to be \$470 and was recorded as a short term liability. At December 31, 2014, the estimate of deferred consideration was adjusted to \$500. The change in estimated deferred consideration of \$30 is included in the other income (expenses) in the consolidated statements of income. The Company made earn-out payments of \$128 and \$372, during the three months ended March 31, 2015 and the year ended December 31, 2014, respectively, which resulted in a \$0 remaining balance at March 31, 2015.

COSTAR TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (SEE INDEPENDENT AUDITOR'S REPORT) (AMOUNTS SHOWN IN THOUSANDS)

3. Acquisition (continued)

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

The Acquisition of these assets meets the definition of a business combination under GAAP. The following table presents a summary of the fair value of assets acquired and liabilities assumed as of June 6, 2014.

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

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

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

Included in the consolidated statement of income are CohuHD Costar revenues and net income of \$3,353 and \$(46), respectively, for the three months ended March 31, 2015. The following proforma information gives effect to the acquisition as if it had occurred on the first day of the three months ended March 31, 2015 and 2014.

	Three Months Ended March 31,	
	2015	2014
Total revenue	\$ 8,099	\$ 11,860
Net income	\$ 29	\$ 1,193

COSTAR TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (SEE INDEPENDENT AUDITOR'S REPORT) (AMOUNTS SHOWN IN THOUSANDS)

4. Fair value measurements

The Company defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities, which are required to be recorded at fair value, the Company considers the principal or most advantageous market in which the Company would transact and the market-based risk measurements or assumptions that market participants would use in pricing the asset or liability, such as inherent risk, transfer restrictions and credit risk.

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

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

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

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

Contingent consideration

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

The following table summarizes financial liabilities measured at fair value on a recurring basis as of March 31, 2015, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

<u>Description</u>	<u>Fair Value Measurement at Reporting Date Using</u>			
	<u>As of March 31, 2015</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Liabilities:				
Contingent purchase price \$				\$

The following table reflects the activity for liabilities measured at fair value using Level 3 inputs as of March 31, 2015:

Balance as of December 31, 2014	\$	128
Payments made on contingent purchase price		(128)
Balance as of March 31, 2015	\$	-

COSTAR TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (SEE INDEPENDENT AUDITOR'S REPORT) (AMOUNTS SHOWN IN THOUSANDS)

5. Property and equipment

Property and equipment at March 31, 2015 and December 31, 2014, were as follows:

	<u>2015</u>	<u>2014</u>
Office furniture and equipment	\$ 848	\$ 832
Less accumulated depreciation	<u>(441)</u>	<u>(435)</u>
Total property and equipment, net	<u>\$ 407</u>	<u>\$ 397</u>

Depreciation expense for the three months ended March 31, 2015 and 2014 was \$6 and \$8, respectively.

6. Intangible assets

The following is a summary of amortized and unamortized intangible assets March 31, 2015 and December 31, 2014.

	<u>March 31, 2015</u>	
	<u>Gross Amount</u>	<u>Accumulated Amortization</u>
Amortized intangible assets		
Customer relations - Southern Imaging	\$ 1,599	\$ 1,599
Distribution agreement - Southern Imaging	1,468	642
Customer relations - IVS	125	71
Covenant not to compete - IVS	50	50
Trade name - CohuHD	1,657	177
Customer relationships - CohuHD	779	59
Covenant not to compete - CohuHD	<u>20</u>	<u>3</u>
Total amortized intangible assets	<u>5,698</u>	<u>2,601</u>
Unamortized intangible assets		
Trade name - Costar	800	
Trade name - IVS	125	
Goodwill - CohuHD	<u>2,063</u>	
Total unamortized intangible assets	<u>2,988</u>	
Total intangible assets	<u>\$ 8,686</u>	<u>\$ 2,601</u>

COSTAR TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (SEE INDEPENDENT AUDITOR'S REPORT)
 (AMOUNTS SHOWN IN THOUSANDS)

6. Intangible assets (continued)

	December 31, 2014	
	Gross Amount	Accumulated Amortization
Amortized intangible assets		
Customer relations - Southern Imaging	\$ 1,599	\$ 1,599
Distribution agreement - Southern Imaging	1,468	624
Customer relations - IVS	125	66
Covenant not to compete - IVS	50	50
Trade name - CohuHD	1,657	118
Customer relationships - CohuHD	779	39
Covenant not to compete - CohuHD	20	2
Total amortized intangible assets	5,698	2,498
Unamortized intangible assets		
Trade name - Costar	800	
Trade name - IVS	125	
Goodwill - CohuHD	2,063	
Total unamortized intangible assets	2,988	
Total intangible assets	\$ 8,686	\$ 2,498

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

Amortization expense for the three months ended March 31, 2015 and 2014 was \$103 and \$28, respectively. Future amortization expense, as of March 31, 2015, is as follows:

Year Ending March 31,	
2016	\$ 419
2017	417
2018	408
2019	375
Thereafter	1478
Total future minimum lease commitments	\$ 3,097

COSTAR TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (SEE INDEPENDENT AUDITOR'S REPORT) (AMOUNTS SHOWN IN THOUSANDS)

7. Lines of credit and long-term debt

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

The Facility with Bank of Texas contains customary representations and warranties, events of default and covenants, including, among other things, covenants that restrict the ability of Costar to incur certain additional indebtedness or to issue equity interests. The Facility with Bank of Texas also contains financial covenants calculated on a consolidated basis requiring the Company to maintain a certain Debt Service Coverage Ratio, Minimum Profitability, and a Minimum Tangible Net Worth.

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

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

Effective June 3, 2014, the Company entered into an Amended Loan and Security Agreement ("Accord") with Bank of Texas. The Accord allows for up to \$7,000 in a revolving line of credit and a \$3,000 term loan with maturities of June 3, 2016 and June 3, 2019, respectively. The obligation under the Accord with Bank of Texas is secured by a lien on substantially all accounts receivable, inventory, and equipment. As of March 31, 2015, the Company was paying interest at the BOKF prime rate (3.25%) for the revolving line of credit and LIBOR plus 2.9% (3.08%) for the term loan. With the execution of the new Accord, the Bank of Texas \$1,000 Facility was closed.

Future principal payments for the term loan, as of March 31, 2015, are as follows:

Year Ending March 31,	
2016	\$ 600
2017	600
2018	600
2019	600
2020	150
	<hr/>
Total term loan principal payments	<u>\$ 2,550</u>

The Accord with Bank of Texas contains customary representations and warranties, events of default and covenants, including, among other things, covenants that restrict the ability of Costar to incur certain additional indebtedness or to issue distributions or dividends. The Company is also restricted in its mergers and acquisitions activity. The Accord with Bank of Texas contains financial covenants calculated on a consolidated basis requiring the Company to maintain a certain Debt Service Coverage Ratio, Minimum Profitability, and a Minimum Tangible Net Worth. As of March 31, 2015 and December 31, 2014, \$1,134 and \$519 was owed to Bank of Texas on the revolving line of credit and \$2,550 and \$2,700 was owed to Bank of Texas on the term loan, respectively.

COSTAR TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (SEE INDEPENDENT AUDITOR'S REPORT) (AMOUNTS SHOWN IN THOUSANDS)

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

The Company paid approximately \$125 in various fees associated with securing the new accord. The fees are treated as a deferred financing costs assets and will be amortized over the life of the accord using the straight-line method for the revolving line of credit portion and the effective-interest method for the term note portion.

8. Income taxes

Total income tax expense for the three months ended March 31, 2015 was \$18. The amount differed from the U.S federal statutory tax rate to pre-tax income due primarily to state taxes. As of March 31, 2014 the Company recognized \$13 for income tax expense.

9. Stockholders' equity (shown in whole amounts)

At March 31, 2015 and December 31, 2014, 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 March 31, 2015 and December 31, 2014, 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 March 31, 2015 and December 31, 2014, there were 1,466,259 shares of common stock outstanding and 1,692,025 shares of common stock issued.

10. Stock option plan (shown in whole amounts)

The Company's 2000 Stock Option and Incentive Plan (the "2000 Incentive Plan") provides for awards in the form of incentive stock options, non-qualified stock options, restricted stock awards and other forms of awards to officers, directors, employees and consultants of the Company. At March 31, 2015 and December 31, 2014, there were 135,982 share options issued under this plan.

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

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

COSTAR TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (SEE INDEPENDENT AUDITOR'S REPORT) (AMOUNTS SHOWN IN THOUSANDS)

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

The following table summarizes information about stock options outstanding at March 31, 2015:

Options Outstanding				Options Fully Vested and Exercisable	
Range of Exercise Price Per Share	Number Outstanding	Weighted Average Remaining Contractual Life (In Years)	Weighted Average Exercise Price Per Share	Number Exercisable	Weighted Average Exercise Price Per Share
\$0.725-\$15.02	135,982	6.08	\$5.24	106,544	\$4.54

Stock option activity for the three months ended March 31, 2015 is as follows:

	2015	
	Number of Shares	Weighted Average Exercise Price Per Share
Outstanding at beginning of year	135,982	\$5.24
Granted		
Exercised		
Canceled		
Outstanding at period end	135,982	\$5.24
Options exercisable at period end	106,544	\$4.54

During the three months ended March 31, 2015 the Company recognized approximately \$16,000 in stock based compensation expense in its consolidated financial statements. The Company recorded approximately \$2,000 in stock based compensation expense during the three months ended March 31, 2014.

11. Lease agreements

On January 31, 2011 the Company entered into a new lease agreement for certain facilities that will expire in 2018. Rent expense under the agreement for the three months ended March 31, 2015 and 2014 were approximately \$27, for each period.

Additionally, in connection with the completion of the Acquisition, effective June 6, 2014 the Company signed a three year lease with Cohu, Inc. in Poway, CA for the CohuHD Costar business. Rent expense under the agreement for the three months ended March 31, 2015 was approximately \$123.

COSTAR TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (SEE INDEPENDENT AUDITOR'S REPORT) (AMOUNTS SHOWN IN THOUSANDS)

11. Lease agreements (continued)

Future minimum annual rent payments as of March 31, 2015 are approximately as follows:

Year Ending March 31,	
2016	\$ 658
2017	675
2018	225
2019	70
Total future minimum lease commitments	<u>\$ 1,628</u>

12. Risk concentrations

Concentration of Cash

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

Concentration of Customers

The Company's security surveillance product line customers include traditional "large box" national retailers and distributors. The Company's industrial vision product line customers include manufacturers that assemble products using automated production lines; these customers use the Company's video systems to monitor activity on the production line. For the three months ended March 31, 2015 and 2014, the Company's three largest customers, accounted for approximately \$2,759, or 34.1%, and two largest customers accounted for approximately \$6,181, or 74.4% of the Company's total revenue, respectively. Amounts owed by two main customers accounted for \$1,424 and \$2,148, or 28.1% and 30.3% of the outstanding accounts receivable balance, as of March 31, 2015 and December 31, 2014, respectively.

Concentration of Suppliers

For the three months ended March 31, 2015 and 2014, the Company made purchases from two main suppliers of approximately 26.3% and 48.2%, respectively. Amounts owed to one main supplier accounted for 20.9% and three main suppliers accounted for 59.3% of the total accounts payable balance, as of March 31, 2015 and December 31, 2014, respectively.