Orbit/FR, Inc.

Consolidated Financial Statements
and Independent Auditor's Report

December 31, 2015 and 2014

Orbit/FR, Inc.

Index

Independent Auditor's Report

To the Stockholders and Board of Directors
Orbit/FR, Inc.

We have audited the accompanying consolidated financial statements of Orbit/FR, Inc., which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of operations and comprehensive income (loss), changes in stockholders' equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Orbit/FR Engineering, LTD, a wholly-owned subsidiary, which statements reflect total assets of approximately $14,349,000 and $13,862,000 as of December 31, 2015 and 2014, respectively, and total revenues of approximately $15,973,000 and $17,088,000, respectively, for the years then ended. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Orbit/FR Engineering, LTD, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Orbit/FR, Inc. as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

CohnReznick LLP

Eatontown, New Jersey
April 29, 2016

Orbit/FR, Inc.

Consolidated Balance Sheets
December 31, 2015 and 2014
(Amounts in Thousands, Except Share and Per Share Data)

Assets

	2015	2014
Current assets		
Cash and cash equivalents	$ 3,702	$ 2,811
Restricted cash	150	-
Accounts receivable, net of allowance of $12 and $21, respectively	5,799	6,768
Inventory	4,424	4,100
Costs and estimated earnings in excess of billings on uncompleted contracts	9,463	9,101
Deferred income taxes	839	806
Other	1,057	1,055
Total current assets	25,434	24,641
Property and equipment, net	4,930	4,880
Deferred income taxes	1,149	1,115
Other assets	24	276
Goodwill	301	301
Total	$ 31,838	$ 31,213

Liabilities and Stockholders' Equity

	2015	2014
Current liabilities		
Accounts payable	$ 3,367	$ 4,238
Due related parties	10,057	7,244
Accrued expenses	3,227	3,667
Short-term bank financing	2,117	1,161
Current portion of long-term debt	-	30
Billings in excess of costs and estimated earnings on uncompleted contracts	2,773	1,737
Total current liabilities	21,541	18,077
Other liabilities	981	965
Long-term debt, net of current portion	-	129
Total liabilities	22,522	19,171
Commitments and contingencies		
Stockholders' equity		
Preferred stock: $.01 par value		
Authorized shares - 2,000,000		
Issued and outstanding shares - none	-	-
Common stock: $.01 par value		
Authorized shares - 10,000,000		
Issued and outstanding shares - 6,084,473	61	61
Additional paid-in capital	16,387	16,387
Accumulated deficit	(6,665)	(4,300)
Accumulated other comprehensive loss - foreign currency translation adjustments	(467)	(106)
Total stockholders' equity	9,316	12,042
Total	$ 31,838	$ 31,213

See Notes to Consolidated Financial Statements.

Orbit/FR, Inc.

Consolidated Statements of Operations and Comprehensive Income (Loss)
Years Ended December 31, 2015 and 2014
(Amounts in Thousands)

	2015	2014
Contract revenues	$ 34,508	$ 39,350
Cost of revenues	26,479	29,551
Gross margin	8,029	9,799
Operating expenses		
General and administrative	3,752	4,309
Sales and marketing	2,116	2,459
Sales, marketing, general and administrative - related party	2,449	1,635
Research and development	2,053	989
Total operating expenses	10,370	9,392
Operating income (loss)	(2,341)	407
Other income (expense)		
Interest	(203)	(192)
Other	336	652
Total other income	133	460
Income (loss) before income tax	(2,208)	867
Income tax expense	157	87
Net income (loss)	(2,365)	780
Other comprehensive loss - foreign currency translation adjustment	(361)	(124)
Total comprehensive income (loss)	$ (2,726)	$ 656

See Notes to Consolidated Financial Statements.

Orbit/FR, Inc.

Consolidated Statements of Changes in Stockholders' Equity
Years Ended December 31, 2015 and 2014
(Shares and Amounts in Thousands)

	Common stock		Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive income (loss)	Total
	Shares	Amount				
Balance, January 1, 2014	6,084	$ 61	$ 16,387	$ (5,080)	$ 18	$ 11,386
Net income	-	-	-	780	-	780
Other comprehensive loss	-	-	-	-	(124)	(124)
Balance, December 31, 2014	6,084	61	16,387	(4,300)	(106)	12,042
Net loss	-	-	-	(2,365)	-	(2,365)
Other comprehensive loss	-	-	-	-	(361)	(361)
Balance, December 31, 2015	6,084	$ 61	$ 16,387	$ (6,665)	$ (467)	$ 9,316

See Notes to Consolidated Financial Statements.

Orbit/FR, Inc.

Consolidated Statements of Cash Flows
Years Ended December 31, 2015 and 2014
(Amounts in Thousands)

	2015	2014
Operating activities		
Net income (loss)	$ (2,365)	$ 780
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Bad debts	213	25
Depreciation and amortization	948	839
Deferred income taxes	(67)	(12)
Changes in operating assets and liabilities		
Accounts receivable	727	(2,384)
Inventory	(332)	(143)
Costs and estimated earnings in excess of billings on uncompleted contracts	(468)	1,246
Other current assets	(4)	256
Other assets	17	351
Accounts payable	(879)	(1,347)
Due related parties	2,760	2,572
Accrued expenses	(464)	227
Billings in excess of costs and estimated earnings on uncompleted contracts	1,007	(1,775)
Other liabilities	16	107
Net cash provided by operating activities	1,109	742
Investing activities		
Purchase of property and equipment	(1,011)	(1,158)
Other assets	235	(301)
Net cash used in investing activities	(776)	(1,459)
Financing activities		
Proceeds from short-term bank financing	1,714	271
Repayment of short-term bank financing	(900)	-
Repayment of long-term debt	(17)	(29)
Restricted cash	(150)	-
Repayment of due related parties	-	(555)
Net cash provided by (used in) financing activities	647	(313)
Effect of exchange rate changes on cash and cash equivalents	(89)	214
Net increase (decrease) in cash and cash equivalents	891	(815)
Cash and cash equivalents, beginning of year	2,811	3,626
Cash and cash equivalents, end of year	$ 3,702	$ 2,811
Supplemental disclosure of cash flow information		
Interest paid	$ 36	$ 45
Taxes paid	$ -	$ 96
Supplemental disclosure of noncash investing and financing activities		
Repayment of short-term bank financing	$ 742	$ -
Landlord funded leasehold improvements	$ -	$ 265

See Notes to Consolidated Financial Statements.

Note 1 - Summary of significant accounting policies

Ownership and basis of presentation

Orbit/FR, Inc. (the "Company") was incorporated in Delaware on December 9, 1996, as a wholly-owned subsidiary of Orbit-Alchut Technologies, Ltd., an Israeli publicly traded corporation (hereinafter referred to as "Alchut"). On May 13, 2008, Alchut sold all of its 3.7 million shares of common stock of the Company to Satimo Industries, SA ("Satimo") and on June 30, 2009, as a result of a corporate reorganization, Satimo became a wholly-owned subsidiary of Microwave Vision, SA ("Microwave Vision"), a then newly created holding company which is publicly traded on the ALTERNEXT stock exchange. The Company develops, markets and supports sophisticated automated microwave test and measurement systems for the wireless communications, satellite, automotive and aerospace/defense industries, and manufactures anechoic foam, a microwave absorbing material that is an integral component of microwave test and measurement systems. Orbit/FR, Inc., a holding company, supports its worldwide customers through its wholly-owned subsidiaries Orbit/FR Engineering, LTD ("Engineering", Israel), Orbit/FR Japan, Orbit/FR Europe (Germany), Advanced ElectroMagnetics, Inc. ("AEMI", San Diego, CA), and Orbit Advanced Technologies, Inc. ("OATI", Horsham, PA) and its wholly-owned subsidiaries; Flam & Russell, Inc., Wireless Investments Holding Company, Inc., Wireless Software Holding Company, Inc. and Wireless Products Holding Company, Inc. The Company sells its products to customers throughout Asia, Europe and North and South America.

Principles of consolidation and foreign currency translation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions of the Company and its wholly-owned subsidiaries have been eliminated in consolidation. The Company's functional currency for the operations of its subsidiary in Israel is the U.S. dollar. The Company's functional currency for the operation of its subsidiary in Germany is the Euro. The translation of foreign subsidiaries' financial statements denominated in a functional currency other than the U.S. dollar into U.S. dollars is performed at each balance sheet date as follows: the foreign currency statement of operations is translated at the average exchange rate in effect for the period. The balance sheet asset and liability accounts are translated at the period-end exchange rate. The resulting translation gain or loss is recorded as a separate component of stockholders' equity. The change in the cumulative translation gains or losses from the preceding period is separately reported on the consolidated statements of operations and comprehensive income (loss) under the caption "Other comprehensive loss - foreign currency translation adjustment", unless such change is considered immaterial (in which case it is included in foreign exchange transaction gains or losses). The tax effect is not material.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Operating cycle

The length of the Company's contracts varies, but is typically between one to two years. Assets and liabilities relating to long-term contracts are included in current assets and current liabilities in the accompanying consolidated balance sheets as they will be liquidated in the normal course of contract completion, although this may require more than one year.

Revenue and cost recognition
The Company's principal sources of contract revenues are from engineering and design services and the production of electro-mechanical equipment. Contract revenue is recognized on the "percentage of completion" method, measured by the percentage of total costs incurred to date to the estimated total costs for each contract. This method is utilized because management considers the cost-to-cost method to be the best available measure of progress on these contracts.

Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs and depreciation. Selling, general and administrative costs are charged to expense as incurred. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions and estimated profitability, including those arising from contract penalty provisions, and final contract settlements may result in revisions to costs and income and are recognized in the period in which the revisions are determined. An amount equal to contract costs attributable to claims is included in revenue when realization is probable and the amount can be reliably estimated.

The asset, "Costs and estimated earnings in excess of billings on uncompleted contracts", represents revenue recognized in excess of amounts billed. The liability, "Billings in excess of costs and estimated earnings on uncompleted contracts", represents billings in excess of revenue recognized.

Revenues from electro-mechanical equipment and manufactured anechoic foam sold to customers which are not part of a larger contract are recognized when the contract is completed and the equipment is delivered.

Cash and cash equivalents
The Company considers all cash accounts, which are not subject to withdrawal restrictions or penalties, and all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents.

Restricted cash
At December 31, 2015, restricted cash included approximately $150, which is required as collateral for the letters of credit outstanding, see Note 6.

Accounts receivable
The Company accounts for potential losses in accounts receivable utilizing the allowance method. In reviewing aged receivables, management considers its knowledge of customers, historical losses and current economic conditions in establishing the allowance for doubtful accounts.

Inventory
Inventory is stated at the lower of cost, determined on the first-in first out method, or market.

Equipment and improvements
Equipment and improvements are stated at cost less accumulated depreciation and amortization. Depreciation has been provided principally on the straight-line method over the estimated useful lives of the assets. Amortization of leased equipment under capital lease is included in depreciation and amortization. Leasehold improvements are amortized on the straight-line method over the lesser of the term of the related lease or the estimated useful lives of the assets.

Deferred rent
The Company recognizes and records rent expense related to its lease agreements, which include scheduled rent increases, on a straight-line basis beginning on the commencement date over the life of the lease. The Company also recognizes and records rent concessions and inducements, in the form of reduced rent payments or landlord funded leasehold improvements, on a straight-line basis over the life of the lease agreement. Differences between straight-line rent expense and actual rent payments are recorded as deferred rent liability. Included in other liabilities in the accompanying consolidated balance sheets at December 31, 2015 and 2014 is $342 and $377, respectively, relating to deferred rent obligations.

Goodwill
Goodwill represents the excess of costs over the fair value of the net assets acquired in connection with the Company's acquisition of AEMI in 1997.

The Company has tested the goodwill of AEMI for impairment at December 31, 2015 and 2014 by making a qualitative assessment that it is more likely than not that the fair value of AEMI is more than its carrying amount. No adjustment for the value of goodwill was necessary for the years ended December 31, 2015 and 2014.

Impairment of long-lived assets
The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In performing a review for impairment, the Company compares the carrying value of the assets with their estimated future undiscounted cash flows. If it is determined that impairment has occurred, the loss would be recognized during that period. The impairment loss is calculated as the difference between the asset carrying values and the present value of estimated net cash flows or comparable market values, giving consideration to recent operating performance and pricing trends. As a result of its review, the Company does not believe that any material impairment currently exists related to its long-lived assets.

Research and development
Internally funded research and development costs are charged to operations as incurred. There were no cost of revenues from customer-funded research and development costs for the years ended December 31, 2015 and 2014. Other research and development costs are separately reflected in the consolidated statements of operations and comprehensive income (loss).

Concentrations of credit risk and significant customers
Financial instruments, which potentially subject the Company to a concentration of credit risk, consist principally of cash and cash equivalents, restricted cash, and accounts receivable.

The Company maintains cash and cash equivalents and restricted cash with various major commercial institutions in the U.S. and overseas. At December 31, 2015, cash and cash equivalent balances and restricted cash that are either uninsured under the Federal Deposit Insurance Corporation coverage limit per financial institution, or are located overseas without such type of insurance coverage, totaled approximately $3,189. The Company does not anticipate credit risk in connection with its concentration of cash and cash equivalents and restricted cash.

To reduce credit risk relating to the Company's sales in the U.S. and overseas, the Company performs ongoing credit evaluations of its commercial customers' financial condition, but generally does not require collateral for government and domestic commercial customers. For certain foreign commercial customers, the Company generally requires irrevocable letters of credit in the amount of the total contract.

For the year ended December 31, 2014, the Company earned approximately 19%, from one customer. For the year ended December 31, 2015, the Company had no customer concentrations.

Severance pay
Pursuant to Israel's Severance Pay Law, Israeli employees are entitled to one month's salary for each year of employment or a portion thereof. Engineering has a severance accrual for its Israeli employees' earned severance pay which is calculated utilizing the employee's most recent salary rate multiplied by the number of years of employment, as of the balance sheet date. The Company's liability for its employees in Israel is fully provided by monthly deposits with insurance policies and by an accrual. The deposited funds include earnings on such deposits accumulated up to the balance sheet date. The deposited funds may be withdrawn only upon the fulfillment of the obligation pursuant to Israel's Severance Pay Law or labor agreements. The value of the deposited funds is based on the cash surrender value of these policies, and includes immaterial earnings. The aggregate value as of December 31, 2015 and 2014 of these policies was approximately $1,927 and $1,890, respectively, and has been presented net of the severance accrual of approximately $2,566 and $2,478, respectively, in other liabilities in the accompanying consolidated balance sheets.

Warranty expense
The Company provides for warranty costs on its products. Product warranty periods generally extend for one to two years from the date of sale. The warranty expense for the years ended December 31, 2015 and 2014 was approximately $466 and $562, respectively.

Income taxes
The Company accounts for income taxes pursuant to the asset and liability method which requires deferred tax assets and liabilities be computed annually for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future 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 tax assets to the amount expected to be realized. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

The Company has no unrecognized tax benefits at December 31, 2015 and 2014. The Company's U.S. federal and state income tax returns prior to fiscal years 2012 and 2011, respectively, are closed and management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

If necessary, the Company recognizes interest and penalties associated with tax matters as part of the income tax provision and includes accrued interest and penalties with the related tax liability in the consolidated balance sheets. As of December 31, 2015 and 2014, there were no tax matters for which interest and penalties were accrued.

(Amounts in Thousands, Except Share and Per Share Data)

Foreign currency transactions
A portion of the Company's revenue is billed in currencies other than the U.S. dollar. The majority of the costs of the Company's contracts have been from U.S. dollar denominated transactions. Transactions with the Company's parent are predominantly in Euros. The majority of the costs incurred in performing the Company's contracts have been denominated in U.S. dollars.

The Company records transactions in connection with the foreign currency invoices received, collected, issued or paid at the exchange rate in effect at the date of the transaction. Receivables and payables denominated in foreign currency are re-measured at each balance sheet date. The differences resulting from unrealized changes in foreign exchange rates are recorded as foreign exchange gain or loss, which is included as a component of other income (expense) in the accompanying consolidated statements of operations and comprehensive income (loss). When a transaction is collected or paid within an accounting period, a realized foreign exchange gain or loss is recorded based on the rate at the date of settlement and the previous carrying amount of the receivable or payable. The Company occasionally enters into forward exchange currency contracts and their carrying amount is measured at each balance sheet date. The change in carrying amount is recorded as a foreign exchange gain or loss. Included in other income, net is the aggregate foreign exchange transaction gain of $585 and $765 for the years ended December 31, 2015 and 2014, respectively.

Advertising
Advertising costs, which are included in general and administrative and sales and marketing expenses, are expensed as incurred. Advertising costs charged to operations were approximately $73 and $4 for the years ended December 31, 2015 and 2014, respectively.

Reclassifications
Certain amounts in the 2014 financial statements have been reclassified to conform to the 2015 presentation.

Subsequent events
The Company has evaluated subsequent events through April 29, 2016, the date the consolidated financial statements were available to be issued.

Note 2 - Inventory

Inventory consists of the following:

	2015	2014
Parts and components	$ 3,893	$ 3,634
Work-in-process	43	-
Finished goods	488	466
Total	$ 4,424	$ 4,100

(Amounts in Thousands, Except Share and Per Share Data)

Note 3 - Property and equipment, net

Property and equipment, net consist of the following:

	2015	2014
Lab and computer equipment	$ 7,383	$ 5,408
Office equipment	241	303
Transportation equipment	57	57
Furniture and fixtures	256	210
Computer software	815	465
Leasehold improvements	465	1,033
Fixed assets in progress	1,203	1,994
	10,420	9,470
Less accumulated depreciation and amortization	5,490	4,590
Total	$ 4,930	$ 4,880

Depreciation and amortization expense for the years ended December 31, 2015 and 2014 amounted to approximately $948 and $839, respectively.

Note 4 - Costs and estimated earnings on uncompleted contracts

Costs and estimated earnings on uncompleted contracts consist of the following:

	2015	2014
Costs incurred on uncompleted contracts	$ 50,280	$ 52,619
Estimated earnings	17,538	20,246
	67,818	72,865
Less billings to date	61,128	65,501
Total	$ 6,690	$ 7,364

(Amounts in Thousands, Except Share and Per Share Data)

The above amounts are included in the accompanying consolidated balance sheets under the following captions:

	2015	2014
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 9,463	$ 9,101
Billings in excess of costs and estimated earnings on uncompleted contracts	2,773	1,737
Total	$ 6,690	$ 7,364

Revisions in the estimated gross profits on contracts and contract amounts are made in the period in which the circumstances requiring the revisions become known. During the years ended December 31, 2015 and 2014, the effect of such revisions in estimated contract profits resulted in a decrease to gross profit of approximately $1,418 and $2,131, respectively, from that which would have been reported had the revised estimate been used as the basis of recognition of contract profits in prior periods.

Although management believes it has established adequate procedures for estimating costs to complete on open contracts, it is at least reasonably possible that additional costs could occur on contracts prior to completion.

Note 5 - Accrued expenses

Accrued expenses consist of the following:

	2015	2014
Compensation	$ 1,204	$ 1,262
Commissions	77	121
Royalties	-	24
Warranty	404	757
Deferred revenue	199	312
Other accruals	1,343	1,191
Total	$ 3,227	$ 3,667

(Amounts in Thousands, Except Share and Per Share Data)

Note 6 - Debt

Debt consists of the following:

	2015	2014
Short-term bank loans	$ 2,117	$ 1,161
Total long-term debt	$ -	$ 159
Less current portion	-	30
Total	$ -	$ 129

On July 23, 2015, the Company signed a $2,250 revolving demand note with HSBC Bank USA ("HSBC"). The revolving demand note replaced the Company's existing domestic demand line of credit facility with Citizens Bank. The revolving line can also be used to support the issuance of letters of credit. The interest rate on loans under the line is at LIBOR rate, as defined, plus 2.25% (approximately 2.54% at December 31, 2015). This facility does not contain any financial covenants and is collateralized by the assets of OATI and AEMI, wholly-owned subsidiaries of the Company. The agreement prohibits the payment of dividends on or any distribution on account of any class of capital stock in cash or property without prior written consent of HSBC. The revolving line of credit agreement requires an annual "clean-up" period of 30 days where no loans under the line may be outstanding. Advances may only be requested in increments greater than $100. At December 31, 2015, the short-term bank loans outstanding amounted to $1,743.

In addition, the Company had a $500 asset Term Note Non-Revolving Line of Credit with Citizens Bank. At December 31, 2014 the Company had a balance outstanding of $160 on the Term Note Non-Revolving Line of Credit. During 2015, the Company received proceeds in the amount of $2,243 from the HSBC revolving demand note, which the Company utilized to repay the outstanding balance on both the domestic demand line of credit facility and Term Note Non-Revolving Line of Credit with Citizens Bank.

On July 23, 2015, the Company signed a $250 revolving term note with HSBC. This facility has an interest rate of LIBOR, as defined, plus 2.25% (approximately 2.54% at December 31, 2015). This facility does not contain any financial covenants and is collateralized by the assets of OATI and AEMI, wholly-owned subsidiaries of the Company. The agreement prohibits the payment of dividends on or any distribution on account of any class of capital stock in cash or property without prior written consent of HSBC. This facility allows up to a five year amortization of any advances under the facility starting at the time of each advance. The Company had no balance outstanding at December 31, 2015.

On July 23, 2015, the AEMI signed a $250 revolving demand note with HSBC. This facility has an interest rate of LIBOR, as defined, plus 2.25% (approximately 2.54% at December 31, 2015). This facility does not contain any financial covenants and is collateralized by the assets of OATI and AEMI, wholly-owned subsidiaries of the Company. The agreement prohibits the payment of dividends on or any distribution on account of any class of capital stock in cash or property without prior written consent of HSBC. The revolving demand note agreement requires an annual "clean-up" period of 30 days where no loans under the line may be outstanding. At December 31, 2015, there was a balance of $200 outstanding.

Microwave Vision guarantees 63% of the aggregate credit exposure on the three credit facilities with HSBC.

Engineering has established lines of credit with two Israeli banks. The line of credit from one Israeli bank has a New Israeli Shekel ("NIS") denominated limit of 500 (approximately $129 USD) and 2,500 (approximately $643 USD) for the issuances of bank guarantees of letters of credit in favor of customers. The other Israeli bank has a New Israeli Shekel ("NIS") denominated limit of 2,500 (approximately $643 USD) and 9,000 (approximately $2,314 USD) for the issuances of bank guarantees of letters of credit in favor of customers. The interest rates charged by the banks are at Prime plus 3%. The bank agreements with both banks do not have expiration dates, but are subject to termination on a quarterly basis. As of December 31, 2015 and 2014, there was a balance of $174 and $161, respectively, short-term bank loan outstanding under these lines of credit.

Note 7 - Related party transactions

Included in contract revenues and cost of revenues for the years ended December 31, 2015 and 2014 is approximately $5,691 and $5,718, respectively, relating to sales to, and $4,603 and $2,124, respectively, relating to purchases from Microwave Vision and its subsidiary companies.

Included in cost and estimated earnings in excess of billings on uncompleted contracts as of December 31, 2015 and 2014 is approximately $1,185 and $1,250, respectively, from related parties. Included in billings in excess of costs and estimated earnings on uncompleted contracts as of December 31, 2015 and 2014 is approximately $270 and $224, respectively, from related parties.

The 2009 Assistance and Provision of Services Agreement (the "Services Agreement") with Microwave Vision and several subsidiaries of Microwave Vision provides for management, operational, sales and marketing, legal, technical and other services to the Company, and Microwave Vision's other direct and indirect subsidiaries (collectively, the "Subsidiaries"). In consideration thereof, the Company and each of the other Subsidiaries agreed to pay Microwave Vision a fee to be determined as of the start of each calendar year, based on the projected gross margins of each Subsidiary for that year, subject to adjustment at year-end based on each entity's gross margin (as defined) for the year. In addition, the Company agreed to pay Microwave Vision an additional fee of 1% of its gross sales in consideration of the right to use the name "Microwave Vision" in the Company's sales and marketing activities. In the years ended December 31, 2015 and 2014, in accordance with the Services Agreement, the Company billed Microwave Vision approximately $2,372 and $2,869, respectively, and Microwave Vision billed the Company approximately $4,820 and $4,504, respectively. The net expense for the years ended December 31, 2015 and 2014 of approximately $2,449 and $1,635, respectively, has been recorded in operating expenses in the accompanying consolidated statements of operations and comprehensive income (loss).

On August 28, 2012, the Company was provided an on demand loan from Microwave Vision in the amount of 600 Euros. At December 31, 2013, the loan balance was 195 Euro (approximately $267 USD) and was reimbursed on December 31, 2014. During 2014, the Company was provided additional on demand loans from Microwave Vision in the amount of $1,200. The interest rate on the loans is the three month EURIBOR rate plus 0.5% (2.73% at December 31, 2015). Partial loan repayments are permitted. In addition, in 2015, Microwave Vision charged interest expense on a portion of the net balance owed at rates ranging from 2.7% to 3.1%. Interest expense recorded for the years ended December 31, 2015 and 2014 was approximately $167 and $147, respectively. Included in due related parties at December 31, 2015 and 2014, inclusive of the aforementioned on demand loans, is $10,056 and $7,244, respectively, owed to Microwave Vision and its subsidiary companies.

(Amounts in Thousands, Except Share and Per Share Data)

Note 8 - Commitments and contingencies

Lease commitments

The Company leases its operating facilities and certain equipment under non-cancelable operating lease agreements which expire in various years through 2022. Rent expense for the years ended December 31, 2015 and 2014 was approximately $881 and $890, respectively. Future minimum lease payments under non-cancelable operating leases with initial terms of one year or more are as follows:

2016	$	563
2017		408
2018		416
2019		328
2020		288
Thereafter		445
Total	$	2,448

Other commitments

Under the terms of a Chief Scientist grant in Israel, Engineering is obligated to pay royalties at the rate of 2% of revenues generated from the sale of certain products up to the amount of the grant. For the year ended December 31, 2014, the Company recorded $24 for royalties to the Chief Scientist. As of December 31, 2015, all grants have been returned and the Company has no liability.

Engineering issued performance guarantees to clients totaling $3,030, in order to assure fulfillment of long project contracts. The performance guarantees expire as follows: $2,523 in 2016, $330 in 2017 and $177 in 2018.

At December 31, 2015 and 2014, the Company has outstanding letters of credit in the favor of a landlord totaling $250.

Note 9 - Income taxes

Pretax income was applicable to the following jurisdictions:

United States	$	(2,221)	$	276
Foreign		13		591
Total	$	(2,208)	$	867

(Amounts in Thousands, Except Share and Per Share Data)

Current				
Federal state and local taxes within U.S.	$	22	$	5
Foreign		194		94
Total		216		99
Deferred				
Federal		-		-
Foreign		(59)		(12)
Total		(59)		(12)
Total income tax expense	$	157	$	87

The Company's deferred tax assets arise primarily from net operating loss ("NOL") carryforwards and certain deferred revenue and expenses that are not currently recognized (deductible) for income tax purposes until received (paid). The Company's deferred tax liabilities arise primarily from timing differences related to property and equipment. The components of the Company's net deferred tax assets are as follows:

Deferred tax assets	$	6,126	$	5,312
Deferred tax liabilities		(664)		(644)
Total deferred tax assets, net		5,462		4,668
Less valuation allowance		(3,474)		(2,747)
Net deferred tax assets	$	1,988	$	1,921

As of December 31, 2015 and 2014, the Company has NOL carryforwards of approximately $12,986 and $12,000 for U.S. federal income tax purposes which expire from 2020 through 2035. On May 13, 2008, Alchut sold all of its 3.7 million shares of common stock of the Company to Satimo. Due to the change in ownership of the Company, utilization of a portion of these NOL carryforwards is limited pursuant to Section 382 of the Internal Revenue Code to approximately $1,315 a year, plus any losses incurred after May 13, 2008. The operating results in the United States in 2015 and 2014 resulted in no tax benefit being recorded for the years ended December 31, 2015 and 2014. The Company also incurred losses in Germany for which no benefit was recorded. The increase (reductions) in the valuation allowance were approximately $727 and $(281) in 2015 and 2014, respectively, primarily due to changes in deferred tax items that impact the NOL usage.

The Company's U.S. tax returns for 2011 through 2014 are open to examination by the Internal Revenue Service. The open years for state tax examinations vary from 2009 through 2014. The Company's German and Israeli tax years open to examination are 2010 through 2014.

The Company has not provided for federal income taxes applicable to the undistributed earnings of its foreign Israeli subsidiary of approximately $7,553 and $7,294 as of December 31, 2015 and 2014, respectively, since these earnings are considered permanently reinvested.

Note 10 - Retirement plans

The Company has retirement plans which cover substantially all U.S. employees who have attained the age of 21 and have completed 3 months of service. Eligible employees make voluntary contributions to the plans up to specified percentages of their annual compensation as defined in the plans. Under the plans, the Company makes discretionary matching contributions determinable each plan year and additional contributions based on annual eligible compensation for each participant. The plans are funded on a current basis. For the years ended December 31, 2015 and 2014, the Company's contributions to the plans were $46 and $53, respectively.

Note 11 - Stock option plan

The Company's 1997 Equity Incentive Plan (the "Incentive Plan"), as subsequently amended, provides for awards of 1,200,000 shares of the Company's stock. Options granted generally vest over five years and typically have a life of ten years. The purpose of the Incentive Plan is to promote the long-term retention of the Company's key employees and certain other persons who are in a position to make significant contributions to the success of the Company. The Incentive Plan permits grants of incentive stock options ("ISOs"), options not intended to qualify as ISOs ("nonqualified options"), stock appreciation rights ("SARs"), restricted, unrestricted and deferred stock awards, performance awards, loans and supplemental cash awards, and combinations of the foregoing (all referred to as "Awards"). At December 31, 2015 and 2014, there were 99,100 fully vested option shares outstanding. No grants have been awarded since March 2008.

Note 12 - Stockholders' equity

Common stock

The holders of shares of common stock are entitled to one vote for each share on record on any matters to be voted on by the stockholders. The holders of common stock are entitled to receive dividends if declared by the Board of Directors and to share ratably in the assets of the Company legally available for distribution to its stockholders in the event of liquidation, dissolution or winding-up of the Company. However, as of December 31, 2015 and 2014, the payment of dividends is prohibited without the consent of the bank under certain outstanding loan agreements. Holders of common stock have no preemptive, subscription, redemption or conversion rights.

Preferred stock

The Company's Board of Directors may, without further action by the Company's stockholders, from time to time, direct the issuance of shares of preferred stock in series and may, at the time of issuance, determine the rights, preferences and limitations of each series. The holders of preferred stock would normally be entitled to receive a preference payment in the event of any liquidation, dissolution or winding-up of the Company before any payment is made to the holders of the common stock. The issuance of preferred stock could decrease the amount of earnings and assets available for distribution to the holders of common stock or could adversely affect the rights and powers, including voting rights, of the holders of common stock.

Treasury stock

On June 24, 1998, the Company's Board approved the repurchase of up to 300,000 shares of the Company's common stock. The Company repurchased 82,900 shares through December 31, 2012 for $243. On March 12, 2013, these shares were sold to Microwave Vision for a total of $98 ($1.18 per share).