

Short-term Investments

Certificates of deposit held for investment with an original maturity greater than 90 days and less than one year are carried at cost and reported as Short-term investments on the Consolidated Balance Sheets. The certificates of deposit are not debt securities.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash equivalents and trade receivables. The Company currently invests its excess cash in government and prime money market funds. The cash in the Company's U.S. banks is insured by the Federal Deposit Insurance Corporation up to the insurable limit of \$250,000.

Income (Loss) per Share

The computation of basic net income (loss) per share is computed using the weighted-average number of common shares outstanding during the period. Diluted net income per share includes the number of additional common shares that would have been outstanding if the dilutive potential shares had been issued. In periods with a net loss, all common stock equivalents are excluded from the per share calculation; therefore, the basic loss per share equals the diluted loss per share.

Inventories and Inventory Valuation

Inventories are stated at the lower of first-in, first-out (FIFO) cost or market value. Market value is based upon an estimated average selling price reduced by estimated costs of disposal. Should actual market conditions differ from the Company's estimates, the Company's future results of operations could be materially affected. Reductions in inventory valuation are included in Cost of revenue in the accompanying Consolidated Statements of Operations. The Company reviews inventory for excess quantities and obsolescence based on its best estimates of future demand, product lifecycle status and product development plans. The Company uses historical information along with these future estimates to reduce the inventory cost basis. Subsequent changes in facts and circumstances do not result in the restoration or increase in that newly established cost basis. Prices anticipated for future inventory demand are compared to current and committed inventory values.

The components of inventories are as follows:

(in thousands)	March 31,	
	2019	2018
Raw materials	\$ 3,445	\$ 2,969
Finished goods	6,356	6,253
Total inventories	<u>\$ 9,801</u>	<u>\$ 9,222</u>

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets generally consist of prepaid product royalty, prepaid maintenance agreements and prepaid rent, which are amortized as expense generally over the term of the underlying contract or estimated product life.

Land, Property and Equipment

Land, property and equipment are stated at cost, net of accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets, or for leasehold improvements, the shorter of the remaining lease term or the estimated useful life. The estimated useful lives for machinery and equipment range from 5 to 7 years and for office, computer and research equipment from 2 to 5 years. Expenditures for major renewals and improvements that extend the useful life of property and equipment are capitalized.

Depreciation and amortization expense was \$0.6 million and \$0.8 million for fiscal years 2019 and 2018, respectively. In accordance with ASC Topic 360, *Property, Plant and Equipment* (ASC 360), the Company assesses all of its long-lived assets, including intangibles, for impairment when impairment indicators are identified. If the carrying value of an asset exceeds its undiscounted cash flows, an impairment loss may be necessary. An impairment loss is calculated as the difference between the carrying value and the fair value of the asset.

The Company acquired 16 acres of land with an acquisition and sold 4 acres in April 2015 for \$264,000. The Company still owns 12 acres of land that remains on the market. The Company concluded that a sale transaction for the remaining land is not probable within the next year; therefore, unsold land is classified as held-and-used as of March 31, 2019 and 2018.

The components of fixed assets are as follows:

(in thousands)	March 31,	
	2019	2018
Land	\$ 672	\$ 672
Machinery and equipment	1,372	1,296
Office, computer and research equipment	5,267	5,175
Leasehold improvements	798	1,238
Land, property and equipment, gross	\$ 8,109	\$ 8,381
Less accumulated depreciation and amortization	(6,811)	(6,780)
Land, property and equipment, net	\$ 1,298	\$ 1,601

Intangible Assets

Intangible assets with determinable lives are amortized on a straight-line basis or the consumption period based on expected cash flows from the underlying intangible asset over their respective estimated useful lives. If the Company were to determine that a change to the remaining estimated useful life of an intangible asset was necessary, then the remaining carrying amount of the intangible asset would be amortized prospectively over that revised remaining useful life. On an ongoing basis, the Company reviews intangible assets with a definite life and other long-lived assets for impairment whenever events and circumstances indicate that carrying values may not be recoverable. If such events or changes in circumstances occur, the Company will recognize an impairment loss if the undiscounted future cash flow expected to be generated by the asset is less than the carrying value of the related asset. Any impairment loss would adjust the asset to its implied fair value.

See Note 4, Intangible Assets for further discussion of intangible assets impairment evaluations.

Accrued Expenses

The components of accrued expenses are as follows:

(in thousands)	March 31,	
	2019	2018
Accrued compensation	\$ 656	\$ 772
Accrued contractual obligation	1,445	1,445
Other accrued expenses	1,466	1,063
Total accrued expenses	\$ 3,567	\$ 3,280

Revenue Recognition and Deferred Revenue

The Company records revenue based on a five-step model in accordance with ASC Topic 606, *Revenue From Contracts With Customers* (ASC 606). The Company's revenue is derived from the sale of products, software, and services identified in contracts. A contract exists when both parties have an approved agreement that creates enforceable rights and obligations, identifies performance obligations and payment terms and has commercial substance. The Company records revenue from these contracts when control of the products or services transfer to the customer. The amount of revenue to be recognized is based upon the consideration, including the impact of any variable consideration, that the Company expects to be entitled to receive in exchange for these products and services.

The majority of the Company's revenue is recorded at a point in time from the sale of tangible products. Revenue is recorded when control of the products passes to the customer, dependent upon the terms of the underlying contract. For right-to-use software, revenue is recognized at the point in time the customer has the right to use and can substantially benefit from use of the software. Products regularly include warranties that include bug fixes, and minor updates so that the product continues to function as promised in a dynamic environment, and phone support. These standard warranties are assurance type warranties which do not offer any services beyond the assurance that the product will continue working as specified. Therefore, warranties are not considered separate performance obligations. Instead, the Company accrues the expected cost of warranty. Extended warranties are sold separately with a post contract support (PCS) agreement. PCS revenue is recognized over time during the support period. Revenue from installation services is recognized when the services have been completed or transferred as this is when the customer has obtained control.

The Company has contracts with multiple performance obligations. When the sales agreement involves multiple performance obligations, each obligation is separately identified and the transaction price is allocated based on the amount of consideration the Company expects to be entitled to in exchange for transferring the promised good or service to the customer. In most cases, the Company allocates the consideration to each performance obligation based on the relative stand-alone selling price (RSP)