UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K/A
Amendment No. 1

(Mark One)
[**X**] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended **March 31, 2019**

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number: **814-00061**

CAPITAL SOUTHWEST CORPORATION

(Exact name of registrant as specified in its charter)

Texas	**75-1072796**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
5400 Lyndon B Johnson Freeway, Suite 1300, Dallas, Texas	**75240**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code**: (214) 238-5700**

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $0.25 par value per share	**The Nasdaq Global Select Market**
5.95% Notes due 2022	**The Nasdaq Global Select Market**

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ☐NO ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES ☐ NO ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☒ NO ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES ☐ NO ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☒	Non-accelerated filer (Do not check if a smaller reporting company)	☐	Smaller reporting company	☐	Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).
YES ☐ NO ☒

The aggregate market value of the voting stock held by non-affiliates of the registrant as of September 30, 2019 was $365,217,231 based on the last sale price of such stock as quoted by The Nasdaq Global Select Market on such date.

The number of shares of common stock, $0.25 par value per share, outstanding as of September 30, 2019 was 17,927,329.

Documents Incorporated by Reference

Portions of the registrant's Definitive Proxy Statement to be filed with the Securities and Exchange Commission in connection with the registrant's Annual Meeting of Shareholders held on July 31, 2019 are incorporated by reference into Part III of this Annual Report on Form 10-K.

EXPLANATORY NOTE

Capital Southwest Corporation (the "Company," "we," "us," or "our") is filing this Amendment No. 1 (the "Amendment") to the Annual Report on Form 10-K for the fiscal year ended March 31, 2019 (the "Original 10-K"), which was filed with the Securities and Exchange Commission (the "SEC") on June 4, 2019. Pursuant to Rule 3-09(b) of Regulation S-X, this Amendment includes the separate audited financial statements for our unconsolidated portfolio company, Media Recovery, Inc., dba SpotSee Holdings, which were not included in the Annual Report on Form 10-K because Media Recovery, Inc., dba SpotSee Holdings', fiscal year ended of September 30 is later than the Company's fiscal year of March 31.

We have determined that this unconsolidated portfolio company has met the conditions of a significant subsidiary under Rule 1-02(w) of Regulation S-X for which we are required, pursuant to Rule 3-09 of Regulation S-X, to attach separate financial statements as exhibits to the Form 10-K. In accordance with Rule 3-09(b)(1) of Regulation S-X, the separate financial statements of Media Recovery, Inc., dba SpotSee Holdings, are being filed as an exhibit to this Amendment within 90 days after the end of Media Recovery, Inc., dba SpotSee Holdings', fiscal year. The Rule 3-09 financial statements include Media Recovery, Inc., dba SpotSee Holdings', consolidated balance sheets as of September 30, 2019 and 2018, and its related consolidated statements of operations and comprehensive income (loss), consolidated statements stockholders' equity, and consolidated statements of cash flows for the years ended September 30, 2019, 2018 and 2017. As previously disclosed in the Current Report on Form 8-K filed by the Company with the SEC on November 25, 2019, the Company sold its investment in Media Recovery, Inc., dba SpotSee Holdings, with a closing on November 25, 2019.

This Amendment also updates, amends and supplements Part IV, Item 15 of the Form 10-K to include, among other items, the filing of new Exhibits 31.3, 31.4, 32.3 and 32.4, certifications of our Chief Executive Officer and Chief Financial Officer, pursuant to Rule 13a-14(a) and (b).

No other changes have been made to the Original 10-K other than as described above. This Amendment does not reflect subsequent events occurring after the original filing date of the Original 10-K or modify or update in any way disclosures made in the Original 10-K. Among other things, forward-looking statements made in the Original 10-K have not been revised to reflect events that occurred or facts that became known to us after the filing of the Original 10-K, and such forward-looking statements should be read in their historical context. Accordingly, this Amendment should be read in conjunction with the Original 10-K and our filings with the SEC made subsequent to the filing of the Original 10-K on June 4, 2019.

PART IV

Item 15. Exhibits and Financial Statement Schedules

The following documents are filed or incorporated by reference as part of this Annual Report:

1. The consolidated financial statements of the Company, as listed in Item 15 of the Original 10-K, are included in Item 8 of the Original 10-K.

2. The financial statement schedules and supplementary financial data of the Company, as listed in Item 15 of the Original 10-K, are included in Item 8 of the Original 10-K, including the Schedule of Investments in and Advances to Affiliates and the Reports of Independent Registered Public Accounting Firm.

   The financial statements and report of independent registered public accounting firm of Media Recovery, Inc., dba SpotSee Holdings, and its consolidated subsidiaries required by Rule 3-09 of Regulation S-X are provided as Exhibit 99.1 to this Amendment.

3. The exhibits listed in the Exhibit Index of the Original 10-K and this Amendment are filed with, or incorporated by reference in, this Annual Report.

EXHIBIT INDEX

The following exhibits are included as part of this Amendment. Asterisk denotes exhibits filed with this Amendment. Double asterisk denotes exhibits furnished with this Amendment.

Exhibit No.	Description
23.2*	Consent of Independent Auditors.
31.3*	Certification of President and Chief Executive Officer required by Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), filed herewith.
31.4*	Certification of Chief Financial Officer required by Rule 13a-14(a) or 15d-14(a) of the Exchange Act, filed herewith.
32.3**	Certification of President and Chief Executive Officer required by Rule 13a-14(b) or Rule 15d-14(b) of the Exchange Act and Section 1350 of Chapter 63 of Title 18 of the United States Code, furnished herewith.
32.4**	Certification of Chief Financial Officer required by Rule 13a-14(b) or Rule 15d-14(b) of the Exchange Act and Section 1350 of Chapter 63 of Title 18 of the United States Code, furnished herewith.
99.1*	Audited Consolidated Financial Statements of Media Recovery, Inc., dba SpotSee Holdings as of September 30, 2019 and 2018 and for the years ended September 30, 2019, 2018 and 2017.

SIGNATURES

Pursuant to the requirements the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CAPITAL SOUTHWEST CORPORATION

December 20, 2019	By:	/s/ Bowen S. Diehl
Date		Bowen S. Diehl President and Chief Executive Officer
December 20, 2019	By:	/s/ Michael S. Sarner
Date		Michael S. Sarner Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Amendment No. 1 to the Annual Report on Form 10-K has been signed below by the following persons in the capacities and on the dates indicated:

Signature	Title	Date
/s/ Bowen S. Diehl Bowen S. Diehl	President and Chief Executive Officer (principal executive officer)	December 20, 2019
/s/ Michael S. Sarner Michael S. Sarner	Chief Financial Officer, Secretary and Treasurer (principal financial officer)	December 20, 2019
* Christine S. Battist	Director	December 20, 2019
* David R. Brooks	Chairman of the Board of Directors	December 20, 2019
* Jack D. Furst	Director	December 20, 2019
* T. Duane Morgan	Director	December 20, 2019
* William R. Thomas III	Director	December 20, 2019

*By: /s/ Michael S. Sarner
Michael S. Sarner
Attorney-in-fact

* Signed by Michael S. Sarner pursuant to a power of attorney signed by each individual and filed with the Original 10-K on June 4, 2019.

Exhibit 23.2

CONSENT OF INDEPENDENT AUDITORS

We consent to the inclusion of our report dated December 20, 2019, with respect to the consolidated financial statements of Media Recovery, Inc., dba SpotSee Holdings, as of September 30, 2019 and 2018, and for the years ended September 30, 2019, 2018, and 2017, as an exhibit to the Amendment No. 1 to the Annual Report on Form 10-K of Capital Southwest Corporation for the fiscal year ended March 31, 2019, filed with the Securities and Exchange Commission. We consent to the incorporation by reference of said report in Registration Statement on Form N-2 of Capital Southwest Corporation (File No. 333-232492) and in the Registration Statements on Forms S-8 of Capital Southwest Corporation (File No. 333-227117, effective August 30, 2018; File No. 333-207296, effective October 5, 2015; File No. 333-177433, effective October 21, 2011; File No. 333-177432, effective October 21, 2011; File No. 333-118681, effective August 31, 2004).

/s/ Whitley Penn LLP

Dallas, Texas
December 20, 2019

CERTIFICATIONS

I, Bowen S. Diehl, certify that:

1. I have reviewed this Amendment No. 1 to the annual report on Form 10-K of Capital Southwest Corporation (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have;
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 20, 2019

By: /s/ Bowen S. Diehl

Bowen S. Diehl
President and Chief Executive Officer

CERTIFICATIONS

I, Michael S. Sarner, certify that:

1. I have reviewed this Amendment No. 1 to the annual report on Form 10-K of Capital Southwest Corporation (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have;
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting;
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: December 20, 2019	By:	/s/ Michael S. Sarner
		Michael S. Sarner Chief Financial Officer

Exhibit 32.3

Certification of the President and Chief Executive Officer
Pursuant to 18 US.C. Section, as adopted pursuant to Section 906 of the
Sarbanes-Oxley Act of 2002

I, Bowen S. Diehl, President and Chief Executive Officer of Capital Southwest Corporation, certify that, to my knowledge:

1. The Amendment No. 1 to the Annual Report of Capital Southwest Corporation on Form 10-K for the year ended March 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (“accompanied report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the accompanied report fairly presents, in all material respects, the consolidated financial condition and results of operations of Capital Southwest Corporation.

Date: December 20, 2019	By:	/s/ Bowen S. Diehl
		Bowen S. Diehl
		President and Chief Executive Officer

Exhibit 32.4

Certification of the Chief Financial Officer
Pursuant to 18 US.C. Section, as adopted pursuant to Section 906 of the
Sarbanes-Oxley Act of 2002

I, Michael S. Sarner, Chief Financial Officer of Capital Southwest Corporation, certify that, to my knowledge:

1. The Amendment No. 1 to the Annual Report of Capital Southwest Corporation on Form 10-K for the year ended March 31, 2019 as filed with the Securities and Exchange Commission on the date hereof ("accompanied report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the accompanied report fairly presents, in all material respects, the consolidated financial condition and results of operations of Capital Southwest Corporation.

Date: December 20, 2019	By:	/s/ Michael S. Sarner
		Michael S. Sarner Chief Financial Officer

MEDIA RECOVERY, INC.
dba SPOTSEE HOLDINGS

CONSOLIDATED FINANCIAL STATEMENTS

As of September 30, 2019 and 2018, and for the
Years Ended September 2019, 2018, and 2017
with Report of Independent Auditors

MEDIA RECOVERY, INC.
dba SPOTSEE HOLDINGS

CONSOLIDATED FINANCIAL STATEMENTS

As of September 30, 2019 and 2018, and for the
Years Ended September 2019, 2018, and 2017

Table of Contents

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Stockholders of
Media Recovery, Inc., dba SpotSee Holdings

We have audited the accompanying consolidated financial statements of Media Recovery, Inc., dba SpotSee Holdings (the "Company") which comprise the consolidated balance sheets as of September 30, 2019 and 2018, and the related consolidated statements of operations and comprehensive income, stockholders' equity, and cash flows for the years ended September 30, 2019, 2018, and 2017, 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 ("GAAP"); 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 financial statements based on our audits. 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of September 30, 2019 and 2018, and the results of their operations and their cash flows for the years ended September 30, 2019, 2018, and 2017, in conformity with GAAP.

Whitley Penn LLP

Houston, Texas
December 20, 2019

MEDIA RECOVERY, INC.
dba SPOTSEE HOLDINGS

CONSOLIDATED BALANCE SHEETS

	September 30, 2019	September 30, 2018
Assets		
Current assets:		
Cash and cash equivalents	$ 180,406	$ 1,524,905
Accounts receivable - trade, net of allowance for doubtful accounts of $36,438 at 2019 and $13,841 at 2018	4,085,099	3,910,655
Accounts receivable, other	450,876	588,758
Note receivable, current	29,141	28,000
Inventories, net of allowance of $162,894 at 2019 and $70,506 at 2018	3,135,103	2,427,136
Prepaid expenses and other assets	118,825	121,035
Income tax receivable	-	120,104
Total current assets	7,999,450	8,720,593
Property and equipment, net	2,966,888	3,026,280
Note receivable, net of current portion	772,731	802,168
Other assets, net	24,897	46,043
Intangible asset, net	259,805	416,392
Goodwill	19,403,349	19,403,349
Total assets	$ 31,427,120	$ 32,414,825
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 850,430	$ 2,042,612
Accrued liabilities	994,795	894,607
Note payable, current	162,500	68,750
Income taxes payable	1,133,617	-
Total current liabilities	3,141,342	3,005,969
Long-term liabilities:		
Line of credit	900,000	-
Note payable, net of current portion and deferred financing costs	403,415	431,103
Deferred income taxes	875,764	1,077,045
Long-term accrued liabilities	17,726	44,262
Total liabilities	5,338,247	4,558,379
Commitments and contingencies		
Mandatorily redeemable preferred stock, $0.001 par value, $1 liquidating preference, 10,000,000 shares authorized, 5,850,000 shares issued and 800,000 shares outstanding	800,000	800,000
Stockholders' equity:		
Common stock, $0.001 par value, 20,000,000 shares authorized, 5,539,002 shares issued and 4,102,002 shares outstanding	5,539	5,539
Treasury common stock, 1,437,000 shares at 2019 and 2018, at cost	(13,712,275)	(13,712,275)
Additional paid-in capital	6,392,875	6,219,847
Other comprehensive loss	(14,144)	(28,810)
Retained earnings	32,616,878	34,572,145
Total stockholders' equity	25,288,873	27,056,446
Total liabilities and stockholders' equity	$ 31,427,120	$ 32,414,825

See accompanying notes to consolidated financial statements.

MEDIA RECOVERY, INC.
dba SPOTSEE HOLDINGS

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

	Year Ended September 30, 2019	2018	2017
Net sales	$ 23,196,281	$ 22,139,095	$ 20,988,000
Cost of sales	10,939,301	10,706,596	9,522,146
Gross profit	12,256,980	11,432,499	11,465,854
General and administrative expenses	8,699,365	8,592,253	8,083,782
(Gain) loss on disposal of property and equipment	-	1,004,006	(838)
Income from operations	3,557,615	1,836,240	3,382,910
Other expense	(46,473)	(118,115)	(3,937)
Income before income taxes	3,511,142	1,718,125	3,378,973
Income tax expense (benefit)	1,678,804	(1,149,035)	1,608,783
Net income	1,832,338	2,867,160	1,770,190
Other comprehensive income (loss)			
Gain (loss) on cumulative translation adjustment	14,666	(35,873)	6,097
Comprehensive income	$ 1,847,004	$ 2,831,287	$ 1,776,287

See accompanying notes to consolidated financial statements.

MEDIA RECOVERY, INC.
dba SPOTSEE HOLDINGS

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years Ended September 30, 2019, 2018, and 2017

	Common Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Other Comprehensive Income (Loss)	Total
Balance at September 30, 2016	$ 5,539	$ (13,712,275)	$ 5,908,389	$ 36,186,968	$ 966	$ 28,389,587
Cumulative translation adjustment	-	-	-	-	6,097	6,097
Stock compensation expense	-	-	149,022	-	-	149,022
Dividends	-	-	-	(2,966,214)	-	(2,966,214)
Net income	-	-	-	1,770,190	-	1,770,190
Balance at September 30, 2017	5,539	(13,712,275)	6,057,411	34,990,944	7,063	27,348,682
Cumulative translation adjustment	-	-	-	-	(35,873)	(35,873)
Stock compensation expense	-	-	162,436	-	-	162,436
Dividends	-	-	-	(3,285,959)	-	(3,285,959)
Net income	-	-	-	2,867,160	-	2,867,160
Balance at September 30, 2018	5,539	(13,712,275)	6,219,847	34,572,145	(28,810)	27,056,446
Cumulative translation adjustment	-	-	-	-	14,666	14,666
Stock compensation expense	-	-	173,028	-	-	173,028
Dividends	-	-	-	(3,787,605)	-	(3,787,605)
Net income	-	-	-	1,832,338	-	1,832,338
Balance at September 30, 2019	$ 5,539	$ (13,712,275)	$ 6,392,875	$ 32,616,878	$ (14,144)	$ 25,288,873

See accompanying notes to consolidated financial statements.

MEDIA RECOVERY, INC.
dba SPOTSEE HOLDINGS

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended September 30, 2019	2018	2017
Operating Activities			
Net income	$ 1,832,338	$ 2,867,160	$ 1,770,190
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	475,058	613,153	590,182
Amortization	176,816	156,606	91,342
Deferred income taxes	(201,281)	(1,443,099)	425,389
Reserve for inventory obsolescence	92,388	(129,865)	7,104
Bad debt expense	10,000	-	-
Stock based compensation	173,028	162,436	149,022
(Gain) loss on sales or disposals of property and equipment	-	1,004,006	(838)
Changes in operating assets and liabilities:			
Accounts receivable, trade	(184,444)	590,247	(1,640,236)
Accounts receivable, other	137,882	(361,160)	(86,056)
Inventories	(800,355)	385,448	454,233
Prepaid expenses and other	2,210	32,752	(26,874)
Income taxes receivable and payable	1,253,721	(733,299)	99,703
Other assets	21,146	(290)	(2,551)
Accounts payable	(1,192,182)	683,103	359,335
Accrued liabilities	73,652	(584,230)	381,792
Net cash provided by operating activities	1,869,977	3,242,968	2,571,737
Investing Activities			
Purchase of intangible asset	-	-	(765,859)
Refund of purchase price of intangible asset	-	128,560	-
Proceeds from note receivable	28,296	4,500	-
Proceeds from sales of property and equipment	-	-	40,126
Purchases of property and equipment	(415,666)	(806,668)	(1,224,251)
Net cash used in investing activities	(387,370)	(673,608)	(1,949,984)
Financing Activities			
Payment of dividends	(3,787,605)	(3,285,959)	(2,966,214)
Proceeds from line of credit	3,850,000	-	-
Proceeds from note payable	100,000	550,000	-
Payments on line of credit	(2,950,000)	-	-
Payments on note payable	(54,167)	-	-
Capitalized financing costs related to note payable	-	(60,113)	-
Net cash used in financing activities	(2,841,772)	(2,796,072)	(2,966,214)
Effect of exchange rate changes on cash	14,666	(35,873)	6,097
Net decrease in cash and cash equivalents	(1,344,499)	(262,585)	(2,338,364)
Cash and cash equivalents at beginning of year	1,524,905	1,787,490	4,125,854
Cash and cash equivalents at end of year	$ 180,406	$ 1,524,905	$ 1,787,490
Supplemental Disclosure of Cash Flow Information			
Cash paid during the year for interest	$ 39,956	$ 24,210	$ -
Cash paid during the year for income taxes	$ 619,496	$ 250,026	$ 483,773
Non-cash Transactions			
Note receivable from sale of property	$ -	$ 834,668	$ -

See accompanying notes to consolidated financial statements.

A. Nature of Business

Media Recovery, Inc., dba SpotSee Holdings, (the "Company") is a manufacturing and distribution company that manufactures shipping and handling monitors and recorders, which measure impact, temperature, and tilt of products during shipment and equipment monitors, used primarily to measure impact and other safety factors. The Company has two manufacturing facilities located in Graham, Texas and Chihuahua, Mexico. A sales and distribution office is located in Loenen, Netherlands and sales offices are located in Shanghai, China and São Paulo, Brazil. The Company's corporate offices are located in Dallas, Texas.

B. Summary of Significant Accounting Policies

A summary of the Company's significant accounting policies consistently applied in the preparation of the accompanying consolidated financial statements follows:

Basis of Accounting

The accounts are maintained and the consolidated financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries ShockWatch, Inc. dba SpotSee; Shocklog Holdings Limited; ShockWatch Europe, B.V.; Mexico SW Production, S.A. DE C.V.; ShockWatch, Inc. Shanghai Representative Office; ShockLog, Ltd; Diffrenet Ltd.; and SpotSee Brasil Ltda. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts in the consolidated financial statements and accompanying notes. Actual results could differ from these estimates and assumptions.

Foreign Currency Translation

All assets and liabilities in the balance sheets of foreign subsidiaries whose functional currency is other than the U.S. dollar are translated at year-end exchange rates. All revenues and expenses in the statements of operations, of these foreign subsidiaries, are translated at average exchange rates for the year. Translation gains and losses are not included in determining net income but are shown in other comprehensive income (loss) on the consolidated balance sheets. Foreign currency transaction gains and losses are included in determining net income.

B. Summary of Significant Accounting Policies – continued

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. At September 30, 2019 and 2018, the Company had no such investments. The Company maintains deposits primarily in two financial institutions, which may at times exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation ("FDIC"). The Company has not experienced any losses related to amounts in excess of FDIC limits.

Accounts Receivable

Accounts receivable are stated at amounts management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Changes in the valuation allowance have not been material to the consolidated financial statements. Concentrations of credit risk with respect to trade receivables are limited due to the large number of customers comprising the Company's customer base, and their dispersion across many different industries and geographies. One customer's accounts receivable balance consisted of approximately 10% of the accounts receivable balance as of September 30, 2019. No customer's accounts receivable balance consisted of more than 10% of the accounts receivable balance as of September 30, 2018.

Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is principally determined by the weighted-average cost method, which approximates the first-in, first-out method. Inventories include factory overhead that is applied on the basis of labor costs and manufacturing expenses incurred, less allowances for obsolete items. The Company determines that items are slow moving or obsolete based on whether they have been sold or used in production between 180 and 365 days, or greater than 365 days, respectively, during the fiscal year. Such items are then specifically reviewed for obsolescence based on other criteria which include the frequency that these items are purchased, manufactured, and sold. The amount of the inventory reserve for each year presented is disclosed in Note D.

Note Receivable

Note receivable represents a loan that is recorded at the unpaid principal balance plus any accrued but unpaid interest. Interest income on the note receivable is recorded when it is earned. If a note holder ceases to make loan repayments and the Company deems the amount to be uncollectible, the loan balance is reduced and a loss is recorded. No allowance for losses has been recorded as of September 30, 2019 and 2018.

B. Summary of Significant Accounting Policies – continued

Property and Equipment

Property and equipment is stated at cost less accumulated depreciation. Depreciation is provided on the straight-line method over the assets' estimated service lives. For major renewals and betterments that extend the useful lives are capitalized. Expenditures for maintenance and repairs are charged to expense in the period in which they are incurred, and betterments are capitalized. The cost of assets sold or abandoned and the related accumulated depreciation are eliminated from the accounts and any gains or losses are reflected in the accompanying consolidated statements of operations and comprehensive loss of the respective period. The estimated useful lives for buildings and improvements range from 10 to 25 years, are 5 years for software, and for machinery and equipment range from 3 to 7 years.

Intangible Asset

In January 2017, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") 2017-01. ASU 2017-01 changes the definition of a business when determining whether a transaction is a business combination or an asset acquisition. The Company early adopted this guidance for the year ended September 30, 2017. In March 2017, the Company completed an acquisition of Diffrenet Limited, which was considered an asset acquisition under ASU 2017-01 as substantially all of the fair value of the gross assets acquired was concentrated in a single identifiable asset. The asset acquisition resulted in the recognition of an intangible asset comprised of purchased software (see Note M) which is being amortized over a period of five years.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of trade accounts receivable. The Company continually evaluates its customers' financial condition and generally does not require collateral. Concentrations of credit risk with respect to trade accounts receivable are generally limited due to the large number of entities comprising the Company's customer base. Additionally, credit losses have historically been within management's expectations.

Revenue Recognition

The Company recognizes revenue on product sales upon the passage of title, which generally occurs upon shipment, or the rendering of services, and when collectability is deemed probable.

Presentation of Sales Tax

The states in which the Company operates and the counties within those states impose a sales tax on all of the Company's sales to nonexempt customers. The Company collects that sales tax from customers and remits the entire amount to the applicable state. The Company's accounting policy is to exclude the tax collected and remitted to the states from revenue and cost of sales.

B. Summary of Significant Accounting Policies – continued

Shipping and Handling Costs

Shipping and handling costs are included in cost of sales on the consolidated statements of operations and comprehensive income.

Advertising

The Company expenses advertising costs as incurred. Total advertising costs for the years ended September 30, 2019 and 2018, and 2017, were approximately $335,000, $328,000, and $154,000, respectively.

Goodwill

The Company records goodwill when consideration paid in an acquisition exceeds the fair value of the assets acquired. Goodwill is not amortized, but rather is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may not be recoverable. The Company conducted their annual impairment test of goodwill as of September 30, 2019 and 2018. They have elected to first assess the qualitative factors to determine whether it is more likely than not that the fair value of the single reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment under GAAP.

If the Company determines that it is more likely than not that its fair value is less than its carrying amount, then the two-step goodwill impairment test is performed. The first step, identifying a potential impairment, compares the fair value of the reporting unit with its carrying amount. If the carrying amount exceeds its fair value, the second step would need to be performed; otherwise, no further step is required. The second step, measuring the impairment loss, compares the implied fair value of the goodwill with the carrying amount of the goodwill. Any excess of the goodwill carrying amount over the applied fair value is recognized as an impairment loss, and the carrying value of goodwill is written down to fair value. No impairment of goodwill was required for the years ended September 30, 2019 and 2018, and 2017.

Stock Awards

The Company may, with the approval of its Board of Directors, grant stock awards for a fixed number of shares to employees with an exercise price equal to the fair value of the shares at the date of grant. The Company uses the Black-Scholes option valuation model for use in estimating the fair value of stock awards.

Long-lived Assets

The Company evaluates its long-lived assets including goodwill, property and equipment, and intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of these assets is measured by comparison of their carrying amounts to future undiscounted cash flows that the assets are expected to generate.

B. Summary of Significant Accounting Policies – continued

Long-lived Assets – continued

If long-lived assets are considered to be impaired, the impairment to be recognized equals the amount by which the carrying value of the asset exceeds its fair market value and is recorded in the period the determination was made. Based upon management's assessment, there was no impairment of long-lived assets during the years ended September 30, 2019, 2018, or 2017.

Income Taxes

Deferred income taxes are determined using the asset and liability method of accounting for income taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income taxes are measured using enacted tax rates expected to apply to taxable income in years in which such temporary differences are expected to be recovered or settled. The effect on deferred income taxes of a change in tax rates is recognized in the consolidated statement of operations of the period that includes the enactment date. In addition, a valuation allowance is established to reduce any deferred tax asset for which it is determined that it is more likely than not that some portion of the deferred tax asset will not be realized.

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, various states, and foreign jurisdictions. The Company has not taken a tax position that, if challenged, would have a material effect on the financial statements or the effective tax rate for the year ended September 30, 2019, or during the prior three years. The Company and its subsidiaries are currently subject to a three-year statute of limitations by major tax jurisdictions.

The Company did not incur any penalties or interest related to its federal tax returns during the years ended September 30, 2019, 2018, or 2017.

Fair Value of Financial Instruments

The Company calculates the fair value of its assets and liabilities which qualify as financial instruments and includes this additional information in the notes to consolidated financial statements when the fair value is different than the carrying value of those financial instruments. The estimated fair value of accounts receivable (trade and other), accounts payable, and accrued liabilities approximate the carrying amounts due to the relatively short maturity of these instruments. The carrying values of the note receivable, note payable, and line of credit also approximate fair value since the instruments bear market rates of interest. None of these instruments are held for trading purposes.

C. Fair Value Measurements

GAAP defines fair value, establishes a framework for measuring fair value, and expands disclosures about assets and liabilities measured at fair value. GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a three-tier hierarchy that is used to identify assets and liabilities measured at fair value. The hierarchy focuses on the inputs used to measure fair value and requires that the lowest level input be used. The three levels defined are as follows:

- Level 1 — observable inputs that are based upon quoted market prices for identical assets or liabilities within active markets.
- Level 2 — observable inputs other than Level 1 that are based upon quoted market prices for similar assets or liabilities, based upon quoted prices within inactive markets, or inputs other than quoted market prices that are observable through market data for substantially the full term of the asset or liability.
- Level 3 — inputs that are unobservable for the particular asset or liability due to little or no market activity and are significant to the fair value of the asset or liability. These inputs reflect assumptions that market participants would use when valuing the particular asset or liability.

The Company holds no instruments which have fair value measured at Level 1 or Level 2. The Company's goodwill was valued using Level 3 inputs of the fair value hierarchy contained in Accounting Standards Codification ("ASC") 820-10, in accordance with policies disclosed in Note B, and are reflected in the accompanying consolidated balance sheets at fair value. There were no changes to fair value for the Company's Goodwill using Level 3 inputs during the fiscal years ended September 30, 2019, 2018, and 2017.

The following table summarizes the fair value of the Company's Level 3 financial assets and liabilities as of September 30, 2019 and 2018.

	September 30,	
	2019	2018
Assets:		
Goodwill	$19,403,349	$19,403,349

D. Inventories

Inventories consist of the following as of September 30:

	2019	2018
Raw materials	$ 1,209,312	$ 942,861
Work-in-progress	509,096	448,623
Finished goods	1,579,589	1,106,158
Allowance for obsolescence	(162,894)	(70,506)
	$ 3,135,103	$ 2,427,136

E. Property and Equipment

Property and equipment consisted of the following at September 30:

	2019	2018
Buildings and improvements	$ 27,594	$ 18,284
Machinery and equipment	8,318,080	8,312,337
Projects in progress	1,070,217	669,604
	9,415,891	9,000,225
Less: accumulated depreciation	(6,449,003)	(5,973,945)
	$ 2,966,888	$ 3,026,280

F. Note Receivable

On June 28, 2018, the Company sold its land and building located in Graham, Texas, for a price of $838,668. The purchaser paid a down payment of $4,000 and entered into a 20 year note receivable for $834,668. The note receivable requires monthly payments of $5,058, including 4% interest. Simultaneously with the sale of the land and building, the Company executed a five year leaseback of the property from the purchaser. The lease has been accounted for by the Company as an operating lease. A loss on the sale of $1,004,006 and associated disposal costs of approximately $67,000 have been recognized in the accompany statement of operations and comprehensive income for the year ended September 30, 2018.

F. Note Receivable – continued

Future maturities of principal on the note receivable are as follows at September 30, 2019:

2020	$ 29,141
2021	30,328
2022	31,564
2023	32,850
2024	34,188
Thereafter	643,801
Total	$ 801,872

G. Mandatorily Redeemable Preferred Stock

In fiscal year 1998 the Company issued 5,850,000 shares of Series A preferred stock which are convertible into shares of voting common stock at the option of the holder at any time at the initial conversion price of $1.00 per share, resulting in an initial conversion rate of one fully paid and non-assessable share of voting common stock for each share of Series A preferred stock, subject to adjustment. During the year ended September 30, 2006, 5,050,000 preferred shares were converted to common shares. No preferred shares were converted to common shares during the years ended September 30, 2019, 2018, and 2017. Dividends are paid to holders of preferred stock concurrently with dividends paid to holders of common stock and such dividends do not accumulate.

In addition, at any time on or after December 31, 2004, holders of preferred stock representing in the aggregate at least 10% of the then outstanding shares of Series A preferred stock may require the Company to redeem such stock for $1.00 per share. The Company has classified the Series A Preferred Stock as temporary equity in accordance with ASC Topic No. 480, Distinguishing Liabilities from Equity, which states that certain mandatorily redeemable financial instruments should be classified as temporary equity.

The Series A preferred stock has a $0.01 par value and a $1 liquidation preference. The Series A preferred stock could be redeemed through a cash payment if requested by the stockholders. Holders of preferred stock are not allowed to vote on matters submitted to a vote of the stockholders of the Company. However, certain corporate matters including dividend payments, issuances of certain stock awards, disposal of shares of capital stock, and a merger of the Company, require the consent of the holders of at least 85% of the then outstanding shares of Series A preferred stock.

H. Stockholders' Equity

The Company has reserved 800,000 shares of common stock for the potential conversion of preferred stock. When the Company did not meet the definition of a public business entity it was eligible for certain nonpublic company exceptions under ASC 480, Distinguishing Liabilities from Equity, and classified these redeemable preferred shares as equity.

Stock Option Grants

During 2019 and 2018, certain officers of the Company were granted options to purchase common shares of the Company. Option transactions for the years ended September 30, 2019 and 2018, are as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)
Balance at October 1, 2017	455,988	$ 5.33	7.89
Granted	6,000	$ 8.36	
Balance at September 30, 2018	461,988	$ 5.37	6.91
Forfeited	(12,500)	7.83	-
Granted	25,000	9.34	9.33
Vested	6,000	9.34	8.41
Balance at September 30, 2019	480,488	$ 5.44	5.27
Exercisable at September 30, 2019	289,001	$ 5.29	5.76

As of September 30, 2019, the range of exercise prices for outstanding options was $5.15 to $9.34.

All stock-based compensation must be recognized as an expense in the consolidated financial statements and such cost should be measured at the fair value of the award. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. The expected life of awards granted represents the period of time that they are expected to be outstanding. The Company determined the initial expected life based on a simplified method, giving consideration to the contractual terms, vesting schedules, and pre-vesting and post-vesting forfeitures.

H. Stockholders' Equity – continued

The fair value of options granted for the years ended September 30, 2019 and 2018, was estimated to be $19,380 and $6,524, respectively, at the date of grant using a Black-Scholes option-pricing model using the following weighted average assumptions at the date of grant:

	2019	2018
Risk-free interest rate	2.33%	1.91%
Expected option life	6.5 years	6.5 years
Expected stock volatility	33.18%	25.93%
Expected dividend yields	11.48%	5.31%

The expected stock volatility was calculated by averaging the historical volatility of a comparable public entity. As of September 30, 2019, all options were outstanding.

During the years ended September 30, 2019, 2018, and 2017, respectively, the Company recorded $173,028, $162,436, and $149,022 of stock-based compensation related to the awards, which is included in general and administrative expense in the accompanying consolidated statements of operations and comprehensive income. Total unamortized stock-based compensation expense at September 30, 2019, was $165,705 and will be expensed ratably through 2023.

I. Line of Credit

The Company maintains financing arrangements with certain banks. These arrangements require compliance with certain financial covenants and are secured by substantially all of the assets of the Company.

On March 21, 2018, the Company entered into a revolving promissory note with a bank for an aggregate commitment of $1,000,000. The note matures on March 21, 2021. Subject to the terms of individual advances, outstanding amounts carry interest at either the prime rate or at the LIBOR rate plus 2.0% (5.00% at September 30, 2019). There was $900,000 and $0 outstanding on the revolving promissory note as of September 30, 2019 and 2018, respectively.

J. Note Payable

On March 21, 2018, the Company entered into a capital expenditures promissory note with a bank for an aggregate commitment of $1,000,000. The note matures on March 21, 2023 and is collateralized. Subject to the terms of individual advances, debt covenants, outstanding amounts carry interest at either the prime rate plus 0.5%, or at the LIBOR rate plus 2.5%. Advances totaling $595,833 carry interest at 4.5% at September 30, 2019. Costs of obtaining the note totaling $60,113 have been deferred and are being amortized over the life of the note. The unamortized cost totaling $29,896 is presented net with the note payable on the consolidated balance sheets. Future maturities of principal on the note are as follows at September 30, 2019:

2020	$ 162,500
2021	162,500
2022	162,500
2023	108,333
Thereafter	-
Note payable	595,833
Deferred financing costs	(29,918)
Note payable, net of deferred financing costs	$ 565,915

K. Income Taxes

Significant components of the provision for income taxes are as follows:

	2019	2018	2017
Current	$ 1,900,565	$ 294,064	$ 1,183,394
Deferred	(221,761)	(1,443,099)	425,389
Total income tax expense (benefit)	$ 1,678,804	$(1,149,035)	$ 1,608,783

On December 22, 2017, the 2017 Tax Cuts and Jobs Act (the "Act") was signed into law. Among other provisions, the Act reduced the highest corporate tax rate from 35% to 21%. With the passage of the Act, the Company's deferred tax assets and liabilities were re-measured as of the effective date of the law to reflect the new applicable rate. The reduction to the net deferred tax asset was charged to tax expense in the period of the change which was the year ended September 30, 2018.

The difference between income tax expense and tax expense computed by applying the federal statutory income tax rate to income before taxes is due primarily to the effect of nondeductible goodwill impairment, applicable state income taxes, foreign tax credits, and nondeductible meals and entertainment expense.

K. Income Taxes – continued

Deferred tax assets and liabilities for the years ended September 30, consisted of the following:

	2019	2018
Deferred tax assets (liabilities):		
Allowance for doubtful accounts	$ 9,397	$ 3,569
Inventory reserves	42,007	18,182
Other accruals	38,354	57,560
Prepaids	(90,565)	-
Deferred compensation	-	516
State NOL	182,661	132,693
Depreciation	(361,830)	(593,777)
Goodwill	(695,788)	(695,788)
Net deferred tax liability	$ (875,764)	$ (1,077,045)

L. Employee Benefit Plan

The Company has a 401(k) deferred compensation plan for all eligible employees. Active participants may contribute up to 90% of their annual compensation, subject to annual limit established by the government. The Company matches 50% of the employees' contributions up to 6% of the employees' salaries. Effective November 30, 2015, the plan merged into the Capital Southwest Management Corporation Employee Savings Plan. For the years ended September 30, 2019, 2018, and 2017, the Company recognized approximately $131,000, $120,000, and $145,000, respectively, of expense related to this plan.

M. Asset Acquisition

On March 10, 2017, the Company acquired the assets and liabilities of Diffrenet Limited, a company incorporated in England and Wales, for a purchase price of $765,859. The following table summarizes the assets acquired and liabilities assumed in the asset acquisition:

Accounts receivable	$ 74,603
Other assets	411
Intangible asset, acquired software	782,934
Accounts payable and accrued liabilities	(92,089)
Net purchase price	$ 765,859

During 2018, a refund of the purchase price of $128,560 was received which reduced the value of the intangible asset to $654,374. There was no such refund in 2019.

M. Asset Acquisition – continued

The acquired intangible asset is being amortized over five years from its acquisition date. Expected future amortization expense at September 30, 2019, is as follows:

2020	$ 124,447
2021	124,447
2022	43,051
Thereafter	-
Total amortization	$ 291,945

As part of the acquisition, the Company is contingently liable for earn-out consideration. The earn-out consideration is based on certain annual, cumulative earnings targets of the Diffrenet subsidiary. The Company's maximum exposure for this consideration is $1,473,969, from the date of acquisition through January 1, 2021. The Company has not incurred any payments related to this earn-out consideration as of September 30, 2019.

N. Commitments and Contingencies

Operating Leases

The Company leases operating facilities and equipment under non-cancelable operating leases. Lease agreements expire at various dates through 2023. Associated rent expense for the years ended September 30, 2019, 2018, and 2017, was approximately $222,000, $144,000, and $150,000, respectively. As a result of escalating lease payments, the Company has recorded deferred rent of approximately $44,000 and $71,000 as of September 30, 2019 and 2018, respectively, included in accrued liabilities and long-term accrued liabilities in the accompanying consolidated balance sheets.

Future minimum payments under non-cancelable operating leases with initial terms of one year or more consisted of the following at September 30, 2019:

2020	$ 233,000
2021	181,000
2022	82,000
2023	-
2024	-
Total minimum lease payments	$ 496,000

N. Commitments and Contingencies – continued

Litigation

The Company is subject to legal proceedings and claims that arise in the ordinary course of operations. As of September 30, 2019 and 2018, the Company has no known material legal contingencies.

O. Subsequent Events

Effective November 25, 2019, the Company was sold to Insite Enterprises, Inc.

Management has evaluated and considered disclosure of subsequent events up to and including December 20, 2019, which is the date the consolidated financial statements were available for issuance.